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## SUMMARY OF THE MAJOR PROVISIONS OF THE CODE

The Code has five sections dealing with directors, remuneration of directors and senior management, accountability and audit, delegation by the board and communication with shareholders.

Listed below are the major Code Provisions:

### A. Directors

#### A1. The Board

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- A1.1 The board should meet at least 4 times a year at approximately quarterly intervals.
  - A1.2 All directors should be given an opportunity to include matters in the agenda for regular board meetings.
  - A1.3 At least 14 days' notice should be given in respect of a regular meeting. For other board meetings, reasonable notice should be given.
  - A1.4 All the directors should have access to the advice and services of the company secretary.
  - A1.5 Minutes of meetings of the board and board committees should be kept and open for inspection by any director.
  - A1.6 Minutes should be recorded in sufficient details with drafts and final versions to be sent to all directors within a reasonable time.
  - A1.7 There should be a procedure agreed by the board to enable directors to seek independent professional advice in appropriate circumstances at the issuer's expense.
  - A1.8 Where a substantial shareholder or a director has a conflict of interest in a matter of importance, the matter should be dealt with in a meeting with the presence of disinterested independent non-executive directors.
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#### A2. Chairman and chief executive officer (the "CEO")

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- A2.1 The roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities should be clearly established and set out in writing.
  - A2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.
  - A2.3 The chairman should be responsible for ensuring that directors receive complete and reliable information in a timely manner.
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#### A3. Board composition

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Independent non-executive directors (the "INEDs") should be expressly identified as such in all corporate communications.

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#### A4. Appointments, re-election and removal

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- A4.1 Non-executive directors should be appointed for a specific term, subject to re-election.
  - A4.2 All directors appointed to fill a casual vacancy should be subject to election at the first general meeting after their appointment. All directors should be subject to retirement by rotation at least once every three years.
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#### A5. Responsibilities of directors

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- A5.1 Every new director should receive a comprehensive, formal and tailored induction on his first appointment and subsequently such briefing and professional development as is necessary.
- A5.2 The functions of non-executive directors should include but should not be limited to the following:
  - (a) participating in board meetings to bring an independent judgement;
  - (b) taking the lead where potential conflicts of interests arise;
  - (c) serving on the audit, remuneration, nomination and other governance committees; and
  - (d) scrutinizing the issuer's performance and monitoring the reporting of performance.



- A5.3 Every director should give sufficient time and attention to the issuer's affairs.
- A5.4 Directors must comply with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Main Board Rules (the "Model Code") or the required standard of dealings set out in the GEM Rules and should establish written guidelines on no less exacting terms than the Model Code or the required standard of dealings for employees who are likely to be in possession of unpublished price sensitive information.

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**A6. Supply of and access to information**

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- A6.1 An agenda and board papers should be sent in full to directors at least 3 days before meetings of the board and board committee.
- A6.2 Adequate, complete and reliable information should be supplied to the board in a timely manner to enable it to make informed decisions. A director may not rely purely on the information supplied by the senior management and should make further enquiries where necessary. Each director should have separate and independent access to the issuer's senior management.
- A6.3 All directors are entitled to have access to board papers and related materials to enable them to make informed decisions.

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**B. Remuneration of directors and senior management**

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- B1.1 Issuers should establish a remuneration committee with specific written terms of reference. A majority of the members of the remuneration committee should be INEDs.
- B1.2 The remuneration committee should consult the chairman and/or CEO in recommending the remuneration of other executive directors and have access to professional advice, if necessary.
- B1.3 The terms of reference of the remuneration committee should include some specific duties such as to make recommendations to the board on remuneration policy and structure and on the establishment of a formal and transparent procedure for developing remuneration policy.
- B1.4 The remuneration committee should make available its terms of reference, explaining its role and authority.
- B1.5 The remuneration committee should be provided with sufficient resources to discharge its duties.

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**C. Accountability and audit**

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**C1. Financial reporting**

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- C1.1 Management should provide such explanation and information to the board as will enable the board to make an informed assessment.
- C1.2
  - (a) Directors have to acknowledge in the CG Report their responsibility for preparing the accounts.
  - (b) Auditors have to state their reporting responsibilities in auditors' report on the financial statements.
  - (c) When the directors are aware of material uncertainties that may cast significant doubt upon the issuer's ability to continue as a going concern, such uncertainties should be clearly and prominently set out at length in the CG Report.
- C1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to reports to regulators as well as to disclosures required under the Main Board Rules/GEM Rules and the statutory requirements.

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**C2. Internal controls**

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The directors should at least annually conduct a review of the effectiveness of internal control system of the issuer and its subsidiaries and report that they have done so in the CG Report.



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### **C3. Audit Committee**

- C3.1 Full minutes of audit committee meetings should be kept. Draft and final versions of the minutes should be sent to all members of the audit committee within a reasonable time.
- C3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the audit committee for a period of 1 year commencing from his ceasing to be a partner of the firm or to have any financial interest in the firm, whichever is the later.
- C3.3 The terms of reference of the audit committee should cover the relationship with auditors, review of financial information of the issuer and oversight of financial reporting system and internal control procedures.
- C3.4 The audit committee should make available its terms of reference, explaining its role and authority.
- C3.5 Where the board disagrees with the audit committee on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in CG Report a statement from the audit committee explaining its recommendation and the reason(s) why the board has taken a different view.
- C3.6 The issuer should provide the audit committee with sufficient resources to discharge its duties.

### **D. Delegation by the board**

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#### **D1. Management functions**

- D1.1 The board should give clear directions to the management as to its powers, and the circumstances which must be reported to and approved by the board prior to decisions making.
- D1.2 Issuers should formalize the functions reserved to the board and those delegated to the management, and conduct periodic reviews of those arrangements.

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#### **D2. Board committees**

- D2.1 Clear terms of reference should be prescribed for board committees.
- D2.2 The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations.

### **E. Communication with shareholders**

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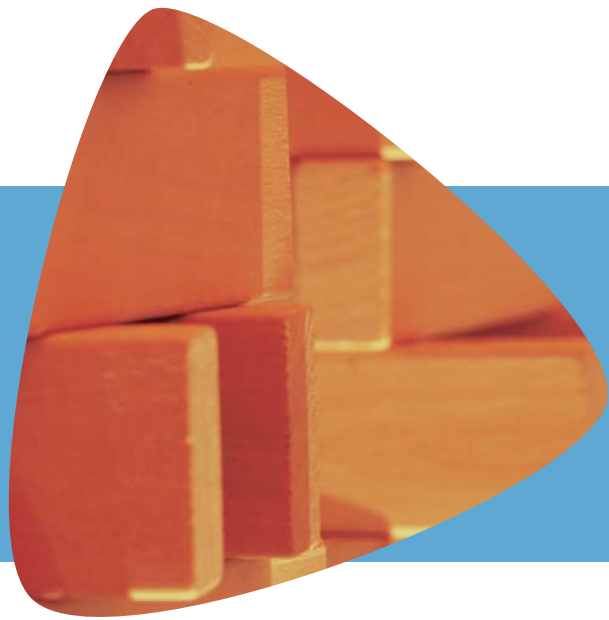
#### **E1. Effective communication**

- E1.1 A separate resolution should be proposed for each substantially separate issue at a general meeting.
- E1.2 The chairman of the board and chairmen of the audit, remuneration and nomination committees should attend the annual general meeting to answer questions.

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#### **E2. Voting by poll**

- E2.1 The procedures for and the rights of shareholders to demand a poll should be disclosed in the issuer's circulars. If a poll is required pursuant to Rule 13.39(3) (Main Board Rules) or Rule 17.47(3) (GEM Rules), it has to be disclosed in the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.



- E2.2 The issuer should ensure votes cast including proxy votes are properly counted and recorded.
- E2.3 The chairman of a meeting should explain at the commencement of meeting the procedures for demanding a poll by shareholders and where a poll is required, the detailed procedures for conducting a poll.

The above is only a summary of the Code Provisions. You are suggested to refer to Appendix 14 (Main Board Rules) or Appendix 15 (GEM Rules) for the full text of the Code Provisions.

#### DISCLOSURE REQUIREMENTS

In respect of an accounting period commencing on or after 1 January 2005, issuers will be required to report on compliance with the Code Provisions in the preliminary results announcements, interim and annual reports as follows:

	<b>Transitional arrangements</b> (Applicable to the first interim results announcement, first interim report and first annual results announcement for the accounting period commencing on or after 1 January 2005)	<b>Subsequent requirements</b>
Half year results announcement	<ul style="list-style-type: none"><li>• A summary of the major areas of deviation from the Code Provisions. For a reporting period commencing on or after 1 July 2005, the summary should include any deviation from Code Provision C.2 on internal controls</li><li>• Need not give considered reasons for such deviations</li></ul>	<ul style="list-style-type: none"><li>• A statement as to whether the issuer meets the Code Provisions</li><li>• Disclose any deviations from the Code Provisions and give considered reasons for such deviations (Issuer may refer to the CG Report in the immediately preceding annual report, and summarizing any changes since that annual report)</li></ul>
Interim report	<ul style="list-style-type: none"><li>• Disclose any deviations from the Code Provisions. For a reporting period commencing on or after 1 July 2005, the summary should include any deviation from Code Provision C.2 on internal controls</li><li>• Need not give considered reasons for such deviations</li></ul>	<ul style="list-style-type: none"><li>• State whether the issuer has complied with the Code Provisions</li><li>• Either:<ul style="list-style-type: none"><li>- give considered reasons for each deviation; or</li><li>- refer to the CG Report in the immediately preceding annual report, and providing details of any changes together with considered reasons for any deviation not reported in that annual report</li></ul></li></ul>



	Transitional arrangements	Subsequent requirements
Interim report (cont'd)	<ul style="list-style-type: none"> <li>In respect of each deviation, either:               <ul style="list-style-type: none"> <li>give considered reasons as to why the issuer does not propose to comply with the relevant Code Provisions in the future; or</li> <li>set out the steps the issuer has taken or proposes to take in order to be able to comply with the relevant Code Provisions in the future</li> </ul> </li> </ul>	
Annual results announcement	<ul style="list-style-type: none"> <li>A summary of the major areas of deviation from the Code Provisions</li> <li>Need not give considered reasons for such deviations</li> </ul>	<ul style="list-style-type: none"> <li>A statement as to whether the issuer meets the Code Provisions</li> <li>Disclose any deviations from the Code Provisions and give considered reasons for such deviations (Issuer may refer to the immediately preceding interim/half-year report or to the CG Report in the immediately preceding annual report, and summarising any changes since that report)</li> </ul>
Annual report	A separate CG Report which must, as a minimum, contain information required under Appendix 23 to the Main Board Rules or Appendix 16 to the GEM Rules	

**ACTIONS TO BE TAKEN BY LISTED ISSUERS**

In order to comply with the Main Board Rules/GEM Rules, listed issuers should:

- Review the internal corporate governance procedures to see if they comply with the standards as set out by the Code Provisions;
- Devise their own code on corporate governance practices on such terms as the directors may consider appropriate;
- Establish a compliance plan to put the Code into practice, for example,
  - appointing two different persons as chairman of the board and CEO with segregated duties;
  - specifying the types of decisions which are to be taken by the board and the management respectively;
  - determining the terms of appointment of non-executive directors;
  - setting up a remuneration committee with specific written terms of reference;
  - setting up a nomination committee or establish the process and criteria for selecting/recommending candidates for directorship;



- conducting an analysis of auditors' remuneration in respect of audit and non-audit services;
- establishing a detailed list of the duties and responsibilities of audit committee;
- setting up a risk management committee to monitor the Company's internal control systems;
- conducting regular compliance reviews.
- Make specific disclosures in the preliminary results announcements, interim reports and the CG Reports as contained in the annual reports.

We recommend you to contact our executives if you have any doubt about the information outlined above or need additional information or clarification.

#### **DEADLINE FOR MIGRATION TO THE NEW LICENSING REGIME UNDER THE HONG KONG SECURITIES AND FUTURES ORDINANCE**

Around 2,700 licensees registered with the Securities and Futures Commission ("SFC") must migrate to the new licensing regime or be out of business by 1 April 2005.

The 2-year transitional period for corporate and individual licensees registered under the former regime to migrate to the new licensing regime under the Securities and Futures Ordinance ("SFO") will end on 31 March 2005. As at 31 December 2004, about 2,300 deemed representatives and 400 deemed corporations (see note below) registered or licensed with the SFC, representing 17% of all those who need to migrate, had not yet submitted their migration applications according to published statistics. Failure to lodge migration applications to the SFC by 31 March 2005 will mean that those affected must cease all regulated activities pursuant to the SFO.

For deemed licensed corporations that do not intend migrating, they should adopt a proactive approach in arranging clearance of client assets prior to closing down of business, including contacting clients, notifying clients of intention to cease business, seeking clients' instructions as to whether they wish to collect their assets or transfer them to other licensed corporations or registered institutions, in accordance with the Securities and Futures (Client Securities) Rules and Securities and Futures (Client Money) Rules.

For deemed licensed corporations intending to migrate, they should have at least 2 individuals approved by the SFC as responsible officers for each type of regulated activity for which they are licensed. This is a continuing requirement for all licensed corporations.

*Note: Deemed licensed corporations refer to firms which were registered or licensed under the repealed Securities Ordinance, Commodities Trading Ordinance or Leveraged Foreign Exchange Trading Ordinance and are now deemed to have been licensed under the SFO pursuant to the transitional provisions contained therein.*

Tricor, a member of the Bank of East Asia Group, is a leading professional provider of integrated business, corporate and investor services in Hong Kong, Greater China and South East Asia. Our services including Accounting, Company Formation, Corporate Governance & Company Secretarial, Executive Search & Selection, Initial Public Offerings & Share Registration, Payroll, Fund and Trust Administration.

Tricor has built its reputation and professional expertise through the acquisition of the corporate service businesses of three of the "Big 4" international accounting firms (Deloitte Touche Tohmatsu and Ernst & Young in Hong Kong, and PricewaterhouseCoopers in Hong Kong and Singapore). Our mission is to be The Business Enabler of choice.



Member of the BEA Group

Please visit our website at [www.tricor.com.hk](http://www.tricor.com.hk)  
E-mail: [info@tricor.com.hk](mailto:info@tricor.com.hk)

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#### Beijing

Tricor Consultancy  
(Beijing) Limited  
Suite 1715-1716  
China World Tower 1  
China World Trade Centre  
1 Jian Guo Men Wai  
Avenue  
Beijing 10004  
China

Tel: (86) 10 6505 8950  
Fax: (86) 10 6505 8952

#### Hong Kong

Tricor Services Limited  
28/F, BEA Harbour View  
Centre  
56 Gloucester Road  
Wanchai, Hong Kong

Tel: (852) 2980 1888  
Fax: (852) 2861 0285

Tricor Services Limited  
24/F, Prince's Building  
Central, Hong Kong

Tel: (852) 2289 3222  
Fax: (852) 2890 9262

#### Macau

Tengis Business Services  
Limited  
17 Andar E  
Praia Grande Commercial  
Centre  
No. 417-429, Av. Da Praia  
Grande  
Macau

Tel: (853) 788 022  
Fax: (853) 788 021

#### Shanghai

Shanghai Tricor Tengis  
Consultancy Limited  
Room 3109-17  
31/F Shanghai Central  
Plaza  
381 Huai Hai Zhong Road  
Shanghai 200020  
China

Tel: (86) 21 6391 6893  
Fax: (86) 21 6391 6896

#### Singapore

Tricor Singapore Pte  
Limited  
#11-00 PWC Building,  
8 Cross Street,  
Singapore 048424

Tel: (65) 6236 3333  
Fax: (65) 6236 4399

#### Tortola (BVI)

Tricor International  
Trustee Limited  
East Asia Chambers, P.O.  
Box 901  
Road Town, Tortola  
British Virgin Islands

Tel: (1 284) 495 5558 /  
(1 284) 495 5888  
Fax: (1 284) 495 5088

## TRICOR SERVICES LIMITED

### CHIEF EXECUTIVE & MANAGING DIRECTOR

**Johnny Ng**

Tel: (852) 2289 3422 [johnny.ng@tricor.com.hk](mailto:johnny.ng@tricor.com.hk)

### MANAGING DIRECTOR

**Julian Chow**

Tel: (852) 2980 1238 [julian.chow@tricor.com.hk](mailto:julian.chow@tricor.com.hk)

### DIRECTORS - BUSINESS SERVICES

**Shirley Tsang**

Tel: (852) 2980 1298 [shirley.tsang@tricor.com.hk](mailto:shirley.tsang@tricor.com.hk)

**Kimmy Chan**

Tel: (852) 2289 3214 [kimmy.chan@tricor.com.hk](mailto:kimmy.chan@tricor.com.hk)

**H C Ying**

Tel: (852) 2289 1402 [h.c.ying@tricor.com.hk](mailto:h.c.ying@tricor.com.hk)

**Patrick Wong**

Tel: (852) 2980 1200 [patrick.wong@tricor.com.hk](mailto:patrick.wong@tricor.com.hk)

### DIRECTORS - CORPORATE SERVICES

**Natalia Seng**

Tel: (852) 2980 1688 [natalia.seng@tricor.com.hk](mailto:natalia.seng@tricor.com.hk)

**Patsy Cheng**

Tel: (852) 2980 1338 [patsy.cheng@tricor.com.hk](mailto:patsy.cheng@tricor.com.hk)

**Susan Lo**

Tel: (852) 2980 1618 [susan.lo@tricor.com.hk](mailto:susan.lo@tricor.com.hk)

**Betty Yeung**

Tel: (852) 2289 3289 [betty.yeung@tricor.com.hk](mailto:betty.yeung@tricor.com.hk)

**Diana Chung**

Tel: (852) 2289 3266 [diana.chung@tricor.com.hk](mailto:diana.chung@tricor.com.hk)

**Paul Moyes**

Tel: (852) 2289 3274 [paul.moyes@tricor.com.hk](mailto:paul.moyes@tricor.com.hk)

**Veronica Lin**

Tel: (852) 2980 1600 [veronica.lin@tricor.com.hk](mailto:veronica.lin@tricor.com.hk)

**Cynthia Wong**

Tel: (852) 2980 1328 [cynthia.wong@tricor.com.hk](mailto:cynthia.wong@tricor.com.hk)

### DIRECTOR - INVESTOR SERVICES

**Allan Tong**

Tel: (852) 2980 1818 [allan.tong@tricor.com.hk](mailto:allan.tong@tricor.com.hk)

### DIRECTORS - CHINA SERVICES

**Natalia Seng**

Tel: (852) 2980 1688 [natalia.seng@tricor.com.hk](mailto:natalia.seng@tricor.com.hk)

**Shirley Tsang**

Tel: (852) 2980 1298 [shirley.tsang@tricor.com.hk](mailto:shirley.tsang@tricor.com.hk)

### SENIOR CONSULTANT

**Marina Wong**

Tel: (852) 2289 1311 [marina.wong@tricor.com.hk](mailto:marina.wong@tricor.com.hk)

### DIRECTOR - EXECUTIVE RESOURCES

**Fiona Yung**

Tel: (852) 2289 3230 [fiona.yung@tricor.com.hk](mailto:fiona.yung@tricor.com.hk)