



The Tung Wah Group of Hospitals **Code of Corporate Governance**

1. History and Overview

The Tung Wah Hospital was established in 1870. It was the first Chinese medicine hospital in Hong Kong offering free medical service for the healthcare needs of the local Chinese population. Subsequently, the Kwong Wah Hospital was established in 1911 in view of the growing population on Kowloon side, and the Tung Wah Eastern Hospital was established in 1929. Governance of all three hospitals was unified through the amended Tung Wah Hospital Ordinance in 1930 [which in 1971 was further amended to become the Tung Wah Group of Hospitals Ordinance 東華三院條例 (Cap 1051)]. As society developed, Western medicine gradually became the dominant form of service. Two other hospitals were added in 1953 and 1965, subsequently named the Fung Yiu King Hospital and Wong Tai Sin Hospital respectively, but the Group remained to be called 東華三院 in Chinese.

From the very beginning, the Group's work included many other areas of charity responding to the needs of local and even overseas Chinese people. These included services for women and children, repatriation of refugees, funeral and burial services, and disaster relief. These community services had evolved and expanded to cover services for the elderly, rehabilitation services for the handicapped, youth and family services, and the management of temples under the Man Mo Temple Ordinance (Cap 154) and other agreements.

Since 1880, the Group started to provide free educational services for the poor and since then had become a major provider of educational services in Hong Kong. Currently the Group operates 15 kindergartens, 16 primary schools, 18 secondary schools, and a Community College in collaboration with The Chinese University of Hong Kong.

To support this wide array of services, the Group depends heavily on Government subvention, support from other funding agencies, rental income from properties owned by the Group, and fund raising activities. The latter have become an integral part of the local culture and achieved widespread public support. Against this background, the Group is constantly seeking ways to ensure the highest standard of ethical behaviour and corporate governance.

2. **Mission**

The time-honoured Mission of the Tung Wah Group is encapsulated in the 16 Chinese characters: 救病拯危，安老復康，興學育才，扶幼導青 or in English:

To heal the sick and to relieve the distressed
To care for the elderly and to rehabilitate the disabled
To promote education and to nurture the youngsters
To raise the infant and to guide the youth

3. **Governance Structure**

3.1 Ordinary and Voting Members

Ordinary Members of the Group are any persons or societies who were deemed to be members of the Group at the commencement of the Ordinance, those who subscribe the specified sum to the Group and approved by the Secretary for Home Affairs with the consent of the Board, and all past Directors of the Group.

Voting Members include all past Chairmen of the Board, serving members of the Board and Advisory Board, and not more than 100 members from amongst the Ordinary Members of the Group as selected by the Advisory Board. Members of the latter have a term of 3 years.

An Annual General Meeting is held before 31 March every year for the Board of Directors to present a report and an audited statement of accounts and balance sheet, as well as for the election of the next Board of Directors and any other business relating to the management of the Group. The Chairman will chair the Annual General Meeting.

3.2 Advisory Board

The Tung Wah Group of Hospitals Ordinance provides for an Advisory Board that, among its stipulated functions, approves the candidates for the post of Directors, selects Voting Members from amongst the Ordinary Members of the Group, and advises the Board of Directors through joint meetings on matters affecting the Group. The Advisory Board is chaired by the Secretary for Home Affairs and consists of not more than 14 members including the Secretary for Health, Welfare and Food, an Executive Council member, a Legislative Council member, the immediate past Chairman of the Board, one other past Director, and not more than 8 persons appointed by the Chief Executive of the Hong Kong Special Administrative Region.

3.3 Board of Directors

On a day to day basis, the Group is governed by a Board of Directors comprising of not less than 11 and not more than 20 Directors. Each Board of Directors has a term of one year and the Directors would elect among themselves a Chairman and not less than 3 but not more than 5 Vice-Chairmen. All Directors are non-executive and independent. The Board composition and background of each Board Member are published in the Annual Report.

The Board of Directors oversees and monitors the performance of the executives through Board Meetings and a committee system. To discharge the governance role, the Board:

- formulates broad strategies and makes policies to achieve the Group's mission and objectives;
- supervises the executives and ensures accountability;
- delegates authority to the Chief Executive, while ensuring internal control and setting parameters within which the management team operates;
- helps promote the image of the Group and builds community relations;
- donates and actively participates in fund raising activities of the Group;
- presents a balanced, accurate and timely assessment of the Group's financial position; and
- reports appropriately to external stakeholders including the Advisory Board.

While all Directors are indemnified by the Ordinance against personal liability for any acts of the Group, Directors should fulfil the following obligations:

- show the highest loyalty and good faith to the Group;
- be independent of management and free from business or other relationship which may interfere with the exercise of their independent judgment;
- disclose to the Board matters of potential conflict of interest;
- keep all information and records of the Group confidential;
- participate actively in Board Meetings and other activities;
- seek education and training in their role as Directors; and
- honour the committed donations and social expenses as agreed in the Board.

3.4 Board Meetings

The following governs the conduct of Board Meetings:

- The Board meets regularly on a bi-monthly basis.
- One-third of the number of Directors shall form a quorum.
- Every question in Board Meetings shall be decided by a majority of votes of the Directors present, and in case of an equality of votes the Chairman shall have a casting vote.
- Notices of regular Board Meetings should be sent at least 15 days before the meeting date. The agenda and meeting papers should be sent to all Directors 7 days in advance of the meeting.
- A Director who wishes to propose matters in the agenda should furnish papers to the Chairman not less than 10 days in advance of the Board Meeting.
- All Directors have unrestricted access to information, including Board papers and minutes of Board Meetings. Draft minutes of Board Meetings should be sent to all Directors at least 14 days before the next meeting.

3.5 Chairman of the Board

The Chairman has the following additional roles and responsibilities:

- To provide leadership and to ensure that the functions of the Board are carried out effectively;
- To help develop and supervise Directors of the Board;
- To understand the separation of roles between governance and management, and establish a strong working relationship with the executive team;
- To promote the image of the Group; and
- To promote a high standard of corporate governance through the setting of personal example.

4. **Management**

The management team under the leadership of the Chief Executive is responsible for the Group's operations to achieve its mission and goals. The management team also serves to support the work of the Board and its committees in the discharge of their governance functions. The Chairman together with the Vice-Chairmen evaluates the performance of the Chief Executive.

The major responsibilities of the Chief Executive include the following:

- To provide leadership in managing the Group's entire operations;
- To report to the Board and advise the Board on policies and strategies;
- To achieve the goals as defined by the Group's annual and strategic plans;
- To implement policies approved by the Board and communicate such policies to the staff;
- To develop the senior executives including succession planning;
- To establish and maintain appropriate internal control and risk management systems; and
- To promote the Group's image through external communication and appropriate public relations strategies.

5. **Committee Structure**

Various committees are set up under the Board, each overseeing a particular function. The committees advise and give recommendations to the Board on matters such as the formulation of policies, and monitor the performance of the executives in the respective areas of work. All key decisions are reserved for the full Board.

Executive Committee

The Executive Committee comprises of the Chairman and all Vice-Chairmen. It represents the full Board in governing the Group when the Board does not meet. It reviews, discusses and approves strategies and policies of the Group, and is responsible for supervising the executives' work.

Finance Committee

The Finance Committee oversees the financial performance of the Group, oversees the Group's funds, and advises the Board on the financial aspects of the policies and plans formulated. It also considers the external auditors' report on the accounts, and ensures effective systems of internal financial control are in place.

Audit Committee

The Audit Committee formulates policies on internal control, monitors the Group's internal audit function and ensures its independence, receives internal and external audit reports, and reviews the management responses to major audit recommendations. It also appoints the external auditor and oversees the Group's work in risk management.

Medical and Health Committee

The Medical and Health Committee advises the Board on strategies and policies pertaining to the development of medical and health services. It recommends annual plans, monitors implementation as well as the quality of service. It also oversees the Group's participation in relevant governance structures of the Hospital Authority with respect to the Group's hospitals.

Education Committee

The Education Committee advises the Board on strategies and policies pertaining to the development of education services. It recommends annual plans, monitors implementation as well as the quality of service. It oversees the Group's participation in the Independent Management Committees of the aided schools, and in the Council of The Chinese University of Hong Kong – Tung Wah Group of Hospitals Community College.

Community Services Committee

The Community Services Committee advises the Board on strategies and policies pertaining to the development of community services. It recommends annual plans, monitors implementation as well as the quality of service.

Human Resources Committee

The Human Resources Committee advises the Board on strategies, policies and priorities pertaining to human resources management. It recommends annual plans and monitors implementation. It is also responsible for approving changes of senior staff.

Staff Retirement Schemes Management Committee

The Staff Retirement Schemes Management Committee advises the Board on policies pertaining to staff retirement schemes of the Group, approves the appointment of provident fund providers, approves investment strategies and monitors performance of the schemes.

Property Committee

The Property Committee advises the Board on policies pertaining to property development and management, considers plans for new projects, approves contracts and the appointment of professional consultants, and monitors implementation of the Group's property development programs. It also oversees tenancy administration and property management, as well as determines rentals.

6. **Additional Governance Systems**

Many of the Group's services have additional governance systems by virtue of the agreement of the Group with the Government and other statutory bodies for the funding received.

6.1 Medical and Health Services

By an agreement signed between the Group and the Hospital Authority (HA) in 1990, the Western medicine services of the Group's 5 hospitals together with the staff therein are under the funding and management of the HA. Each hospital is governed by a Hospital Governing Committee (HGC). Under the agreement, the Board Chairman of the Group will chair all the HGC, and two-thirds of the HGC members are also nominated by the Group. The land and premises of the hospitals continue to be held by the Group. The HA undertakes to honour the tradition of the Group including the provision of Chinese medicine services in the hospitals, and the free medical services scheme where the Group pays the HA the fees that would have been collected from patients.

6.2 Community Services

Under the Lump Sum Grant arrangement, the Group manages all Government-funded community services within an agreed financial envelop. In return, the Group has to deliver services according to service level and quality parameters as defined by the Social Welfare Department and within a set of defined rules. There is regular reporting to and compliance checking by the Department.

6.3 Education Services

The Group operates schools in accordance to regulations as laid down by the Education and Manpower Bureau. There is regular reporting to and compliance checking by the Bureau. In addition, a total of 33 Incorporated Management Committees (IMC) have been set up for the Group's primary and secondary schools in accordance to the Government's scheme of education reform. Each IMC is chaired by a school supervisor nominated by the Group, and comprises of School Managers among whom the majority are also nominated by the Group.

The Chinese University of Hong Kong-Tung Wah Group of Hospitals Community College is governed by a Council, which is chaired by the Group's Chairman. 11 of the 19 Council Members also come from the Group's nomination.

7. **Planning and Control**

7.1 The Planning System

The Group's planning cycle follows that of the financial year that begins on April 1st of every year and ends on March 31st the next year. This also coincides with the one-year term of each Board of Directors.

From time to time, the Board and executives may conduct strategic planning to revisit the Mission of the Group, discuss changes and opportunities in the internal and external environment, and agree on major strategic directions of development.

On a yearly basis, the Group conducts an Annual Planning exercise. It is an iterative process with the Chief Executive initially drawing up a framework of priority areas based on the major strategic directions as discussed in the Board and information gathered from the senior executives. Each Division/Branch proceeds to formulate its own draft action plan for the next year. These will then be discussed with the Chief Executive, shared and further harmonized among Divisions/Branches to come up with the overall draft Annual Plan for the next year.

The Chief Executive presents a summary of this draft Annual Plan to the Executive Committee to receive input and comments from the Chairman and all Vice-Chairmen. At the same time, the relevant detailed component plans will be presented to respective Committees of the Board to seek members' comments and endorsement. These include the Medical and Health Committee, the Education

Committee, the Community Services Committee, the Property Committee and the Human Resources Committee. Recapitulation of the previous year's plans including any under or over-achievement of set targets will also be presented and explained.

The planning process is closely linked to the budgeting and resource allocation exercise. Meetings involving the Chief Executive, the Financial Controller and relevant senior executives will be conducted to discuss the recurrent budget as well as capital expenditure proposals. The latter is mainly met by the Year End Allocation of donations received during the year. The overall financial situation, financial forecast and draft budget are then presented to the Finance Committee for endorsement.

Finally, the consolidated Annual Plan together with the proposed budget for the next year is presented to the Board of Directors for formal approval. Thereafter, the executives will conduct internal communication of the Annual Plan to the staff, as well as for information to members of the Advisory Board. A summary will also be uploaded to the Tung Wah webpage for external communication.

7.2 Management Control and Reporting

The Chief Executive is responsible for aligning the staff of all Divisions and Branches towards the achievement of the organization's objectives and plans. This is achieved firstly through the annual planning exercise and secondly by monitoring progress throughout the year. Apart from the bi-weekly Division Heads' Meeting, the Chief Executive also chairs a number of Policy Working Groups in the major areas of work. These forums provide opportunities for discussing implementation details, monitoring progress, solving problems, and engendering cross-Division cooperation.

In financial management, the Financial Controller helps the Chief Executive in monitoring the incurred income and expenditures against the budget, and ensuring compliance with financial rules and regulations. Regular reports are presented to the Finance Committee for comments and endorsement. The Financial Controller also prepares the yearly financial statement in compliance with accounting standards generally accepted in Hong Kong, and facilitates the External Auditor's work.

It is the practice of the Group to publish its Annual Report upon completion of each term and on the first working day of the new financial year. The Annual Report is uploaded onto the Tung Wah webpage, and includes the following contents and disclosure:

- Composition of the Board of Directors and Advisory Board
- Committee structure and composition
- Organization structure and service centres
- Functions, roles and responsibilities of each Division/Branch
- Major program initiatives, activities and events
- Balance sheet as at January 31st and estimated recurrent income and expenditure accounts for the year ended March 31st; and
- Analysis of income and expenditures, major sources of funding and usage of funds.

7.3 Internal and External Audit

The Group's audit functions play an important role in ensuring proper governance and compliance with set rules and regulations. These functions are carried out by the Audit Committee of the Board, the Audit Branch for internal audit, and the External Auditors. As noted in Section 6, relevant activities of the Group are also subject to audits by the HA, the Education and Manpower Bureau, and the Social Welfare Department.

The terms of reference and composition of the Audit Committee are stated in Section 5.3. Independence of the Audit Committee is ensured by no overlapping membership between the Audit and Finance Committees, and engagement of an external independent member with relevant expertise where appropriate. The Audit Committee is responsible for reviewing and approving the annual internal and external audit plans.

The Principal Auditor has direct, independent access to the Chairman of the Audit Committee. Each year, the Principal Auditor and the Chief Executive will conduct a risk assessment exercise through a Risk Management Policy Working Group. Internal audit plans are then drawn up taking into account the risk areas identified, the cycle of regular checks on service units and functions, and the audit manpower resources available. The plan is then presented to the Audit Committee for approval. During the year, the Audit Committee will receive reports on audit findings as well as the management response and any system improvements arising thereof. Half yearly returns on the Management Checklist of Annual Plan targets will also be compiled by the Principal Auditor and presented to the Audit Committee.

In parallel, the Audit Committee is responsible for engaging the External Auditor who provides independent professional views on the Group's financial situation, compliance with accounting rules and regulations, and any other observations during the audit exercise. There is close communication between the External Auditor and the Group's Principal Auditor and Financial Controller. The consolidated financial statement and external audit report of the Group will be jointly examined by the Audit Committee and the Finance Committee. After approval by the Board, a copy of the signed and audited statement of accounts and the auditor's report will be sent within 6 months after the end of the financial year to each serving Director, Director of the year covered by the report, Member of the Advisory Board, and Voting Member. Copies will also be sent to relevant Government departments that grant subvention on the Group's operations.

8. **Code of Ethics**

As a charitable organization of long standing good reputation, the Tung Wah Group of Hospitals advocates and expects a high standard of ethical behaviour among its members. We believe this is commensurate with the expectation of the community we serve, our donors, as well as the Government, to whom the Group owes its existence. Internally, we also advocate an organizational culture of respect, fairness, teamwork and people orientation. The Group will endeavour to make this a living Code of Ethics through regular internal discussions. The following describes the standards and qualities to guide the behaviour of Directors and staff members.

8.1 Integrity and Honesty

All Directors and staff members are expected to be trustworthy in their acts to serve the organization, as opposed to serving their self-interest at the expense of the organization. At no time should personal advantages be gained through exploiting positions or relationships. All potential conflicts of interests must be declared, and precautions taken. Actions and decisions should be able to withstand the "sunshine test" and be justified. The Board and executives should set good examples and promote such ethical behaviour throughout the organization. Complaints on integrity and honesty should be taken seriously, and well-intentioned whistleblowers should be protected from retaliation.

8.2 Responsibility and Accountability

There should be adequate check and balance for both Directors and executives in terms of the authority conferred upon their positions.

- Directors should fulfil their duties in policy formulation and overseeing the executives' work, while refraining from micro-managing. They also need to honour their obligations in participating in the Group's activities as well as in meeting donation pledges.
- Staff members have to demonstrate management accountability to the Board of Directors, and provide adequate information to enable them to discharge their governance roles.
- The Group has accountability towards the Government for the funding received that supports the majority of its activities, as well as to donors for the donations received.
- Advisory Board Members have the duty to advise but not unduly interfere with the work of the Board of Directors and executives. The latter, on the other hand, have the duty to respect and carefully consider such advice.

8.3 Empathy and Modesty

As a charitable organization serving the poor and needy among the local population, the Group consistently demonstrates a caring and empathetic image in all its activities. At the same time, we treasure the value of modesty in serving the community. We endeavour to minimize expenditure and administrative cost in fund raising activities so as to maximise the resources that can be put into charitable services. We do not condone lavishness or misuse of the Group's activities for personal publicity, which may bring disrepute to the organization.

8.4 Non-discrimination and Fairness

The Group serves all those who are in need of its services irrespective of race, sex, socio-economic background, religion or belief. The Group also strives to remain apolitical and non-partisan. Internally we treat our staff with fairness, which includes non-discrimination of people with handicap. Staff recruitment and promotion should be based on merit criteria that can stand the scrutiny by audit. Harassment of any nature will not be tolerated. Formal channels for addressing staff complaints exist to ensure the voice of aggrieved staff is heard and properly dealt with.

8.5 Loyalty and Respect

The Group functions effectively only as a team. Each member of the team is expected to have a sense of duty and loyalty towards the organization. All Members of the Board of Directors, the Advisory Board Members, the executives and staff of different Divisions and Branches have different expertise and roles to play. Team spirit is particularly important in the Board of Directors by virtue of the turnover each year and the diverse background of Members. It is important to have a culture of mutual respect so that the collective wisdom and contributions will work towards bringing the greatest benefit to the community we serve. Furthermore, as a people-oriented organization, we treasure and strive to cultivate good relationship with our staff, our business partners and our clients who receive our services.

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