



Code of Corporate Governance of the Tung Wah Group of Hospitals

(for the year 2019/2020
Updated as at 21 March 2019)

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Code of Corporate Governance of the Tung Wah Group of Hospitals

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 (“TWGHs”) Ordinance 東華三院條例 (Cap 1051)] (the “Ordinance”). As society developed, Western medicine gradually became the dominant form of service. Two other hospitals were added in 1953 and 1965, subsequently named the TWGHs Fung Yiu King Hospital and the TWGHs Wong Tai Sin Hospital respectively, but the Group remained to be called 東華三院 in Chinese.

From the very beginning, the work of TWGHs 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, TWGHs 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, 13 primary schools, 18 secondary schools, 2 special schools, the Tung Wah College (“TWC”) and 4 educational services centres.

To support this wide array of services, TWGHs 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, TWGHs 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 are the persons and societies as specified in section 4(2) of the Schedule to the Ordinance.

Voting Members as specified in section 4(3) of the Schedule to the Ordinance include all past Chairmen of the Board, serving Members of the Board and the Advisory Board, and not more than 100 members from amongst the Ordinary Members of the Group as selected by the Advisory Board. Voting Members have a term of 3 years from the date of their selection.

An Annual General Meeting is held before 31 March every year for the Board of Directors to present a report and the signed and audited statement of accounts and balance sheet made up to 31 March of the preceding year and any other business relating to the management of TWGHs, as well as for the election of the next Board of Directors. The Chairman will chair the Annual General Meeting. Directors of the next Board will be elected by Voting Members through a formal process at the Annual General Meeting.

3.2 **Advisory Board**

The 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 TWGHs, 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 Food and Health, 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, TWGHs is governed by a Board of Directors comprising of not less than 11 and not more than 20 Directors. Each Director has a term of one year and may serve for a maximum of 5 consecutive terms. All Directors are non-executive and independent. The election of the Board shall take place during the Annual General Meeting, after which the Board's composition and the 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 Chief Executive and the senior management team and ensures accountability, while ensuring internal control and setting parameters within which the management team operates;
- helps promote the image of TWGHs 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.

The roles and responsibilities of Directors of the Board are stipulated in the Director's Handbook.

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 for the time being, or if their number is not a multiple of 3 then the number nearest one-third, 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.
- The agenda and meeting papers should be sent to all Directors normally 5 clear calendar days before the date of the 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 within 2 weeks after the meeting.
- The procedures governing the conduct of Board-level meetings are detailed in the Procedural Orders for meetings of the Board of Directors and the Procedural Orders for meetings of the Committees of the Board.

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 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 corporate communications strategies.
- To lead the Group to strengthen the awareness on environmental protection and conservation.

5. **Committee Structure**

The Board has 11 standing Committees, viz. Medical and Health Committee, Education Committee, Community Services Committee, Property Committee, Fund-raising and Corporate Communications Committee, Human Resources Committee, Staff Retirement Schemes Management Committee, Finance Committee, Information Technology Committee, Audit Committee and Records and Heritage Committee, each overseeing a particular function of the Group.

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 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 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 with regulations as laid down by the Education Bureau. There is regular reporting to and compliance checking by the Bureau. In addition, a total of 34 Incorporated Management Committees ("IMC") have been set up for the Group's primary and secondary schools in accordance with CAP 279 and EDB guidelines. 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 TWC is governed by a Board of Governors ("BoG"), of which the Chairman, Vice-Chairman and Members are appointed by TWGHs from amongst the nominees recommended by the nomination committee and approved by the TWGHs. Among the prevailing 15 members of BoG (a maximum of 16 members), there are 5 TWGHs representatives.

A centralized School Management Committee ("SMC") has been set up for the Group's Kindergartens with Chairman of the Board of Directors being the Supervisor and School Managers to be appointed by the Group.

7. **Planning and Control**

7.1 **The Planning System**

The Group's planning cycle follows that of the financial year that begins on 1 April every year and ends on 31 March 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 interactive process with the Chief Executive initially drawing up a framework of priority areas based on the major strategic directions as discussed by the Board and information gathered from the senior executives. Each Division/Branch and Records and Heritage Office ("RHO") 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/entities and RHO 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. Recapitulation of the achievements made in the previous year's plans will also be incorporated in the Annual Plan.

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.

7.2 Management Control and Reporting

The Chief Executive is responsible for aligning the staff of all Divisions and Branches as well as 2 separate entities and RHO 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 monthly 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 assists 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 Auditors' 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 webpage of TWGHs, and includes the following contents and disclosure:

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

7.3 Internal and External Audit

The audit functions of TWGHs 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 of this Code, relevant activities of the Group are also subject to audits by the HA, the Education Bureau, and the Social Welfare Department.

Independence of the Audit Committee is ensured by no overlapping membership between the Audit Committee and the Finance Committee, 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 and independent access to the Chairman of the Board/the Chairman of the Audit Committee. Each year, the Principal Auditor, in consultation with the Chief Executive and Division/Branch Heads will conduct a risk assessment exercise through a Risk Management Policy Working Group on key services/operations/functions within TWGHs. 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. Annual returns on the Risk Assessment of individual Divisions/Branches 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 Auditors who provide 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 Auditors and the Principal Auditor and the Financial Controller of TWGHs. The consolidated financial statement and external audit report of the Group will be jointly examined by the Audit Committee and the Finance Committee. After approved by the Board, a copy of the signed and audited statement of accounts and the auditors' report will be sent to each serving Director, Director of the year covered by the report, Member of the Advisory Board, and Voting Member within 6 months after the end of the financial year. Copies of the said documents will also be sent to relevant government departments that grant subvention to the operations of TWGHs.

8. **Code of Ethics**

As a charitable organization of long standing good reputation, TWGHs 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 TWGHs owes its existence. Internally, we also advocate an organizational culture of respect, fairness, teamwork and people orientation. TWGHs 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 **Avoidance and Declaration of Conflict of Interest**

A conflict of interest situation arises when the "private interests" of Directors or staff members compete or conflict with the interest of TWGHs or the official duties of Directors or staff member. Private interests include financial and other interests of Directors or staff members themselves, and those of their connections including family and other relations, personal friends, the club and societies to which they belong, and any person to whom he owes a favour or to whom he may be obligated in any way.

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 ethical behaviour throughout the organization. Complaints on integrity and honesty should be taken seriously, and well-intentioned whistleblowers should be protected from retaliation.

Some common examples described below, which are by no means exhaustive, enable a clear understanding of the circumstances in which Directors may find themselves in a position of conflict of interest (whether actual, potential or perceived) and have a duty to declare them:

- A Director has interest in or is closely associated with a company which provides the Group with paid services or bids for supply of good or services to the Group;
- A Director has interest in or is closely associated with a company/another NGO which plans to compete with the Group to bid for the same service provision contract or engages in the same service as provided by the Group;
- A Director rents a property from the Group or leases and sells his property to the Group;
- A Director attends a meeting for evaluation of a supplier of which he is also a board member of that supplier.

8.2 Integrity and Impartiality

All Directors and staff members should act impartially and should not use their official position for personal gains nor accord preferential treatment to organizations or persons with whom they have connections. They should not use or permit the use of their official position or title or an authority associated with their office in a manner that is intended to coerce or induce another person to provide any benefit to himself or his relations, friends or associates. Nor should they use their official position or title in a manner that could reasonably be construed to imply that the Group sanctions or endorses their personal activities or those of another.

8.3 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.

- TWGHs 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 advice of the Advisory Board shall be given at a joint meeting of the Board and the Advisory Board in the manner as specified under section 19 of the Schedule to the Ordinance. The Board of Directors and executives have the duty to respect and carefully consider such advice.

8.4 Empathy and Modesty

As a charitable organization serving the poor and needy among the local population, TWGHs 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 activities of TWGHs for personal publicity, which may bring disrepute to the organization.

8.5 Non-discrimination and Fairness

TWGHs 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 are in place to ensure the voice of aggrieved staff is heard and properly dealt with.

8.6 Confidentiality of Information

Directors and staff members should not disclose any classified or proprietary information of the Group without authorization or misuse any information of the Group for their personal gain or the benefit of others. They should not use, or take advantage of such information obtained in the course of their official duties, and continue to observe their duty of confidentiality after they have left the Group. Special care should be taken to ensure the security of the Group's classified or proprietary information, in particular when handling any personal data of the Directors, staff, volunteers and service recipients to ensure compliance with the Personal Data (Privacy) Ordinance (Cap. 486) and the Group's data privacy policy.

8.7 Loyalty and Respect

TWGHs 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, Branches, entities and RHO 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.

8.8 Responsible to Environment

As the largest charitable organization shouldering the social responsibilities in Hong Kong, TWGHs strives to protect the living environment and conserve the nature. The Group pursues a total environmental concept in its culture and communication in operating the medical, education and community services to fulfil its environmental responsibility to the impacted surroundings. The Group is dedicated to promoting environmental friendly behaviour among its staff, students, stakeholders and the public for a better living environment.

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