

## Appendix 15

### CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

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### PRINCIPLES OF GOOD GOVERNANCE, CODE PROVISIONS AND RECOMMENDED BEST PRACTICES

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#### C. ACCOUNTABILITY AND AUDIT

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##### C.2 Risk management and Internal controls

###### Principle

The board ~~should ensure~~ is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains sound appropriate and effective risk management and internal controls systems to safeguard shareholders' investment and the issuer's assets. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems.

###### Code Provisions

C.2.1 The ~~directors~~ board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that at least annually conduct a review of the effectiveness of the issuers' issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that they it have has done so in their its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.

C.2.2 The board's annual review should, in particular, ~~consider~~ ensure the adequacy of resources, staff qualifications and experience, training

programmes and budget of the issuer's accounting, internal audit and financial reporting functions.

### **Recommended Best Practices**

C.2.3 The board's annual review should, in particular, consider:

- (a) the changes, since the last annual review, in the nature and extent of significant risks, and the issuer's ability to respond to changes in its business and the external environment;
- (b) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;
- (c) the extent and frequency of communication of monitoring results to the board (or board committee(s)) which enables it to assess control of the issuer and the effectiveness of risk management;
- (d) significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition; and
- (e) the effectiveness of the issuer's processes for financial reporting and GEM Listing Rule compliance.

C.2.4 Issuers should disclose, in the Corporate Governance Report, a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period. ~~The disclosures should also include~~ In particular, they should disclose:

- (a) the process used to identify, evaluate and manage significant risks;
- (b) ~~additional information to explain~~ the main features of its the risk management processes and internal control systems;
- (c) an acknowledgement by the board that it is responsible for the risk management and internal control systems and reviewing ~~its~~ their effectiveness. It should also explain that such systems 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;

- (d) the process used to review the effectiveness of the risk management and internal control systems; and
- ~~(e) the process used to resolve material internal control defects for any significant problems disclosed in its annual reports and accounts; and~~
- (e) the procedures and internal controls for the handling and dissemination of inside information.

~~C.2.5 Issuers should ensure that their disclosures provide meaningful information and do not give a misleading impression. The issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report.~~

Notes:

1 An internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the issuer's risk management and internal control systems.

2 A group with multiple listed issuers may share group resources to carry out the internal audit function for members of the group.

### **Recommended Best Practices**

~~C.2.6 Issuers without an internal audit function should review the need for one on an annual basis and should disclose the outcome of this review in the Corporate Governance Report.~~

C.2.6 The board may disclose in the Corporate Governance Report that it has received a confirmation from management on the effectiveness of the issuer's risk management and internal control systems.

C.2.7 The board may disclose in the Corporate Governance Report details of any significant areas of concern.

## **C.3 Audit Committee**

### **Principle**

The board should establish formal and transparent arrangements to consider how it will apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the issuer's auditors.

The audit committee established under the GEM Listing Rules should have clear terms of reference.

### Code Provisions

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C.3.3 The audit committee's terms of reference should include at least:

#### *Relationship with the issuer's auditors*

- (a) ...
- ...
- (e) ...
- ...

#### *Oversight of the issuer's financial reporting system, risk management and internal control systems ~~procedures~~*

- (f) to review the issuer's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the issuer's risk management and internal control ~~and risk management~~ systems;
- (g) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have ~~an~~ effective ~~internal control~~ systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting and financial reporting function;
- (h) to consider major investigation findings on risk management and internal control matters as delegated by the board or on its own initiative and management's response to these findings;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer, and to review and monitor its effectiveness;

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## CORPORATE GOVERNANCE REPORT

### MANDATORY DISCLOSURE REQUIREMENTS

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#### L. BOARD COMMITTEES

The following information for each of the remuneration committee, nomination committee, ~~and~~ audit committee, risk committee, and corporate governance functions:

(a) ...

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(d) a summary of the work during the year, including:

(i) ...

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(iv) for the audit committee, a report on how it met its responsibilities in its review of the quarterly, half-yearly and annual results, and unless expressly addressed by a separate risk committee, or the board itself, its review of the risk management and internal control systems, the effectiveness of the issuer's internal audit function, and its other duties under the Code...; and

(v) for the risk committee (if any), a report on how it met its responsibilities in its review of the risk management and internal control systems and the effectiveness of the issuer's internal audit function.

#### P. INVESTOR RELATIONS

Any significant changes in the issuer's constitutional documents during the year.

### ~~RECOMMENDED DISCLOSURES~~

#### S.Q. RISK MANAGEMENT AND INTERNAL CONTROLS

~~(a) — Where an issuer includes a directors' the board's statement that they have it has conducted a review of its risk management and internal control systems in the annual report under paragraph code provision C.2.1, it is encouraged to must disclose the following:~~

~~(a) (i) — an explanation of how the internal control system has been defined for the issuer;~~

~~(ii) — procedures and internal controls for the handling and dissemination of inside information;~~

~~(iii) — whether the issuer has an internal audit function;~~

- ~~(iv) the outcome of the review of the need for an internal audit function conducted, on an annual basis, by an issuer without one (C.2.6 of the Code);~~
- ~~(b) (v) how often the risk management and internal controls systems are reviewed; the period covered, and where an issuer has not conducted a review during the year, an explanation why not; and~~
- ~~(c) (vi) a statement that a the directors have reviewed review of the effectiveness of the risk management and internal control systems has been conducted and whether they the issuer considers them effective and adequate;~~
- ~~(vii) directors' criteria for assessing the effectiveness of the internal control system;~~
- ~~(viii) the period covered by the review;~~
- ~~(ix) details of any significant areas of concern which may affect shareholders;~~
- ~~(x) significant views or proposals put forward by the audit committee;~~
- ~~(xi) where an issuer has not conducted a review of its internal control system during the year, an explanation why not; and~~
- ~~(b) a narrative statement explaining how the issuer has complied with the code provisions on internal control during the reporting period.~~

**RECOMMENDED DISCLOSURES**

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**Q.R. SHARE INTERESTS OF SENIOR MANAGEMENT**

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**R.S. INVESTOR RELATIONS**

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**~~S.~~ INTERNAL CONTROLS**

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**T. MANAGEMENT FUNCTIONS**

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