

Corporate Governance Disclosure In Annual Reports

A Guide to Current Requirements and
Recommendations for
Enhancement



March 2001



Hong Kong
Society of
Accountants

ABBREVIATIONS

CO	Hong Kong Companies Ordinance
GEM	Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
GR	Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
HKSA	Hong Kong Society of Accountants
LR	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules)
MDA	Management discussion and analysis
OECD	Organisation for Economic Co-operation and Development
PN	Practice Note to the Listing Rules
SAS	Statement of Auditing Standards
SDIO	Securities (Disclosure of Interests) Ordinance
SEHK	The Stock Exchange of Hong Kong Limited

Two years ago, when the Asian economic downturn was very severe, there was a clear need for corporate governance reform, with particular reference to disclosure, and a collective will to take appropriate action. Poor disclosure, although not a cause of the downturn certainly exacerbated underlying economic problems. At the very least, it can be said that better disclosure would have allowed both governments and companies to react to underlying economic problems in a more timely manner. Hong Kong was able to weather the storm better than many other Asian economies because the Special Administrative Region has one of the highest standards of corporate governance in Asia. However, this must not make us complacent.

Today, with the recovery of many Asian economies steadily underway, the need for corporate governance reform is no less clear and it is very important that the collective will to take action does not weaken. Ironically, it is always easier to make the case and obtain support for reform when there is a crisis. However, when the situation improves, there is always a temptation to let things slip and put reform aside for another day because it involves too much trouble and is, perhaps, unnecessary. Nothing could be further from the truth.

With a global economy, corporate governance standards must also be global. Consequently, those Hong Kong companies whose governance systems are not compatible with international standards will lose out in terms of attracting international investment. More than 70 per cent of the international capital market is made up of United States and United Kingdom pension funds, and other institutional investors. These investors are keen on reducing risk. One of the principal ways in which they can do this is by going to markets where governance practices are comparable to those in their home markets. If Hong Kong is to maintain its status as a major international financial centre and capital market, Hong Kong companies must play by global rules, particularly those relating to full and timely disclosure. Corporate governance is not an optional extra for Hong Kong companies. It is an essential and overriding element in attracting investment and stimulating economic growth.

Against this background and as companies begin to prepare their year 2000 annual reports, the HKSA considers it very timely to issue this Guide on Corporate Governance Disclosure in Annual Reports.

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Hong Kong Society of Accountants

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1. INTRODUCTION

1.1 The First Report of the HKSA Corporate Governance Committee (formerly a Working Group) issued in December 1995 made the following points about corporate disclosure. A company's published announcements and reports (and its general meetings) are its primary channel of communication with shareholders. It is the transparency achieved through open disclosure by boards that is the most direct method of ensuring that companies are accountable for their actions.

1.2 In order to promote good corporate disclosure in Hong Kong, in that First Report a number of recommendations were made for enhanced corporate governance disclosure. Further recommendations have been included in the following reports subsequently published by the Corporate Governance Committee:

- A Guide for the Formation of an Audit Committee (December 1997);
- A Guide for Directors' Business Review in the Annual Report (November 1998); and
- Directors' Remuneration - Recommendations for Enhanced Transparency and Accountability (November 1999).

Some of the Corporate Governance Committee's key recommendations have now been adopted in the Listing Rules.

1.3 More recently, the HKSA has organised the Best Corporate Governance Disclosure Awards with the aim of providing a benchmark/examples of existing best practice, thereby assisting and encouraging more companies to emulate the achievement of the best in formulating their own corporate governance practices, policies and disclosures.

1.4 The judges in their overall remarks on the Awards commented that compliance with the mandatory corporate governance disclosure requirements of the Listing Rules and the Companies Ordinance is generally high. They also commented, however, that in addition to a high degree of compliance with mandatory corporate governance rules and regulations, companies should be encouraged to make more voluntary disclosures directed at providing shareholders and investors with appropriate data and information so that they can properly evaluate their investments and make informed decisions, rather than disclosures designed merely to meet the minimum statutory or regulatory requirements.

1.5 In this context, the aim of this Guide is to contribute towards the promotion of high standards of corporate governance disclosure in the annual reports of Hong Kong companies with particular reference to companies listed on the main board of the SEHK and the GEM, unlisted public companies, public corporations and large private companies. This can be achieved by:

- Assisting those with responsibilities for preparing financial statements, such as directors and chief accounting officers, to better understand the scope and benefits of good corporate governance disclosures; and
- Making further recommendations for the enhancement of corporate governance disclosure (see Section 3).

2. CORPORATE GOVERNANCE DISCLOSURE

- 2.1 A strong disclosure regime is a pivotal feature of market-based monitoring of corporate conduct and is central to the ability of shareholders to exercise their voting rights effectively. Experience in countries with large and active equity markets shows that disclosure can also be a powerful tool for influencing the behaviour of companies and for protecting investors. A strong disclosure regime can help to attract capital and maintain confidence in capital markets. Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting of shares. Insufficient or unclear information may hamper the ability of markets to function, may increase the cost of capital and result in a poor allocation of resources.
- 2.2 Disclosure also helps improve public understanding of the structure and activities of companies, their policies and performance with respect to environmental and ethical standards and their relationships with the communities in which they operate.

Disclosure under OECD principles of corporate governance

- 2.3 Since 1996, the OECD has been working to review and analyse international corporate governance issues. In May 1999, the OECD published a set of principles on corporate governance which was the first inter-governmental attempt to develop international standards for corporate governance.
- 2.4 The OECD principles establish that the statutory and regulatory corporate governance framework should ensure that timely and accurate disclosure is made on all matters regarding the company, including its financial situation, performance, ownership, and governance.
- 2.5 Disclosure should include, but not be limited to, material information on:
- The financial and operating results of the company;
 - Company objectives;
 - Major share ownership and voting rights;
 - Members of the board and key executives and their remuneration;
 - Material foreseeable risk factors;
 - Material issues regarding employees and other stakeholders; and
 - Governance structures and policies.

Sources of corporate governance disclosure in Hong Kong

- 2.6 Formal requirements to make disclosures on corporate governance matters are contained within the following:
- the Companies Ordinance;
 - the Securities (Disclosure of Interests) Ordinance;
 - the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and
 - the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
- 2.7 Good corporate governance disclosure, however, typically includes voluntary disclosures providing information over and above the minimum statutory or regulatory requirements.

3. RECOMMENDATIONS FOR ENHANCED CORPORATE GOVERNANCE DISCLOSURE

- 3.1 As explained in Section 1, the Corporate Governance Committee has since 1995 made a series of recommendations for enhanced corporate governance disclosure in Hong Kong. In this Guide, we repeat certain of those recommendations which have not yet been adopted in the Listing Rules and make further recommendations for enhancement.
- 3.2 The overview of corporate governance disclosure in Hong Kong set out in Section 4 and the detailed disclosure checklists in Appendix 4 reflect both existing disclosure requirements in Hong Kong together with our recommendations for enhanced corporate governance disclosure.
- 3.3 Our recommendations for the enhancement of corporate governance disclosure in Hong Kong are set out below.
- (i) **In order to communicate to shareholders the strength of their corporate governance structures, policies and practices, listed companies and public corporations should be encouraged to include in their annual report a statement on corporate governance.** Such a statement on corporate governance should be presented separately in the annual report with the same prominence as, for example, the directors' report. A skeleton of a statement on corporate governance is set out in Table 1 below and an illustrative statement is set out in Appendix 1. **The illustrative statement includes disclosure relating to the work of the remuneration committee. In this context, we repeat our recommendation that boards should appoint remuneration committees composed of wholly or mainly non-executive directors to make recommendations to the board regarding the remuneration of the executive directors.**
 - (ii) **To enhance comparability and transparency of the way directors are compensated, and, in particular, the extent to which such remuneration is linked to the company's performance, directors' remuneration should be analysed between "performance based" and "non-performance based" compensation.**
 - (iii) **In order to enhance transparency and to allow more informed judgements to be made on the fairness and reasonableness of directors' remuneration in the light of the performance of the company, disclosure should be made of the remuneration of individual directors by name.** See illustration set out in Appendix 2. **Nevertheless, approval of the board and consent of the individual directors should be obtained before publishing details of individual director's remuneration.**
 - (iv) **Provision should be made for the analysis of directors' standard remuneration between basic salaries, housing allowances, other allowances and benefits in kind.** See illustration set out in Appendix 2.

- (v) **Disclosure requirements in respect of directors' share options should be extended to include disclosure by individual director of the aggregate value realised on the exercise of options during the year. Aggregate value realised is calculated as the excess of the market price on the day of exercise of options over the exercise price multiplied by the number of shares acquired as a result of the exercise of the options.** Accordingly, value is considered "realised" when the option is exercised even if the shares acquired on exercise are not themselves sold. **Disclosure should also be made of the closing market price of the shares at the balance sheet date.** See illustration set out in Appendix 2.

- (vi) Paragraph 3 of SAS 600 "Auditors' reports on financial statements" states that: "An appreciation of the inter-relationship between the responsibilities of those who prepare financial statements and those who audit them is also necessary to achieve an understanding of the nature and context of the opinion expressed by the auditors. Readers need to be aware that it is the directors (or equivalent persons) of the reporting entity and not the auditors who determine the accounting policies followed". **In order to aid communication with the reader of the financial statements, the directors should set out in a separate statement their responsibilities in connection with the preparation of the financial statements.** Such a Statement of Directors' Responsibilities for the Financial Statements may be presented either immediately before the auditors' report or within the directors' report. An illustrative Statement of Directors' Responsibilities for the Financial Statements is set out in Appendix 3.

- (vii) Disclosure should be made of non-audit fees paid to auditors in order to increase transparency regarding the auditors' independence.

Table 1

STATEMENT ON CORPORATE GOVERNANCE

Directors

- number of board meetings
- attendance of directors at meetings
- responsibilities of the board
- contribution and role of non-executive directors
- committees of the board
- policy on executive directors' remuneration and share options
- details of how, and by whom, the fees and other benefits of non-executive directors are determined
- directors' appointment and termination arrangements
- any other relevant additional information

Audit committee

- composition
- role and function
- number of meetings
- attendance at meetings
- statement on its independence
- report of work done and significant issues addressed including in respect of review of financial reports and internal controls
- any other relevant additional information

Remuneration committee

- composition
- role and function
- number of meetings
- attendance at meetings
- report of work done and significant issues addressed
- any other relevant information

Investor relations

- process of communication

Other matters

- social responsibility (e.g. environmental protection)
- human resources and internal management structure and workplace development initiatives
- relations with employees, creditors, suppliers and other significant parties
- contribution to community service
- any other relevant additional information

4. OVERVIEW OF CORPORATE GOVERNANCE DISCLOSURE IN ANNUAL REPORTS IN HONG KONG

Capital structure

- 4.1 Shareholders and other users require information about the ownership structure of a company and about the rights of shareholders.

Corporate Governance Disclosure	Source
Details and reasons for issuance of share capital during the year.	CO, LR, GR
Analysis of borrowings by maturity dates.	LR, GR
Details and reasons for share buybacks during the year.	LR, GR
Details of directors' and substantial shareholders' interests in the company and associated corporations.	LR, GR

Board structure and functioning

- 4.2 Shareholders and other users require information on individual board members and key executives in order to evaluate their experience and qualifications and to assess any potential conflicts of interest that might affect their judgement. They also require information relating to the work of the board in order to assess its effectiveness.

Corporate Governance Disclosure	Source
Directors and senior managers' biographical details.	CO, LR, GR
Details of directors' service contracts.	LR, GR
Details of directors' interests in competing businesses.	LR, GR
The number of board meetings held during the period.	HKSA recommendation
Directors' attendance at board meetings held during the period.	HKSA recommendation
Description of the responsibilities of the board.	HKSA recommendation
A statement of directors' responsibilities in connection with the preparation of the financial statements.	HKSA recommendation
Description of the role and contribution of non-executive directors.	HKSA recommendation
Description of the functions of committees of the board.	HKSA recommendation
Details of directors' appointment and termination arrangements.	HKSA recommendation

Management discussion and analysis

4.3 The MDA should focus on significant changes in performance and financial position during the period and include significant information to enable shareholders and other users to make an informed assessment of the trend in activities and results. The MDA should also identify and explain any special factors which have influenced activities or results, provide a comparison with the corresponding period in the preceding financial year and give an indication of the prospects for the current period.

Corporate Governance Disclosure	Source
Operating Review:	
<ul style="list-style-type: none"> • A description of the significant features of operating performance during the period commenting on segmental information, the environment in which the business operates, material acquisitions and disposals and any special features that have affected the results for the period. 	LR, GR
<ul style="list-style-type: none"> • Provide details of the number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes. 	LR, GR
<ul style="list-style-type: none"> • Discuss the main positive and negative factors that may affect future operations and results. Identify and comment on the management of principal risks and uncertainties faced by the business. 	HKSA recommendation
<ul style="list-style-type: none"> • Discuss prospects for new business, including new products and services and future plans for material investments and their expected sources of financing. 	LR, GR
<ul style="list-style-type: none"> • Indicate and discuss the impact of post balance sheet events. 	HKSA recommendation
Financial Review:	
<ul style="list-style-type: none"> • Discuss the overall return attributable to shareholders. 	HKSA recommendation
<ul style="list-style-type: none"> • Indicate and explain subjective judgements to which the financial information is particularly sensitive. Disclose the reason for changes in accounting policies. 	HKSA recommendation
<ul style="list-style-type: none"> • Describe the capital structure and the treasury policies implemented. 	LR, GR
<ul style="list-style-type: none"> • Discuss liquidity and financial resources. 	LR, GR
<ul style="list-style-type: none"> • Discuss the going concern status of the company. 	HKSA recommendation
<ul style="list-style-type: none"> • Comment on the impact of off balance sheet items. 	LR

Remuneration

- 4.4 Board and executive remuneration are an area of concern to shareholders. Companies are generally expected to disclose sufficient information on the remuneration of board members and key executives for shareholders to properly assess the costs and benefits of remuneration plans and the contribution of incentive schemes, such as share option schemes, to performance.

Corporate Governance Disclosure	Source
The aggregate of directors' remuneration analysed by components specified in the Listing Rules together with banding analysis. For GEM companies, components of remuneration must be analysed by individual director (albeit without any obligation to disclose any individual by name).	CO, LR, GR
The aggregate of employees' remuneration together with banding analysis for the five highest paid employees.	LR, GR
Details of policy on directors' remuneration and share options.	HKSA recommendation
Details of how, and by whom, non-executive directors' fees and other benefits are determined.	HKSA recommendation
Disclosure should be made of the analysis of directors' remuneration between "performance based" and "non-performance based" compensation.	HKSA recommendation
Disclosure should be made of the remuneration of individual directors.	HKSA recommendation
Disclosure of the analysis of standard directors' remuneration, between basic salaries, housing allowances, other allowances and benefits in kind.	HKSA recommendation
Disclosure by individual director of the aggregate value realised on the exercise of options during the year, together with an indication of the closing market price of the shares at the balance sheet date.	HKSA recommendation
The composition, role and functioning of the remuneration committee, including the number of meetings in the year and attendance at those meetings, should be disclosed. Disclosure should also be made of the work undertaken by the remuneration committee during the year and of the significant issues addressed.	HKSA recommendation

Audit committee

- 4.5 Shareholders should be provided with information about the composition, role and function of the audit committee in order to assess its effectiveness.

Corporate Governance Disclosure	Source
Details of the composition of the audit committee, the work undertaken during the year and the number of times the audit committee met during the year.	GR
Details of the composition of the audit committee.	HKSA recommendation
A description of the role and function of the audit committee.	HKSA recommendation
The number of audit committee meetings held during the year.	HKSA recommendation
Audit committee members' attendance at meetings held during the year.	HKSA recommendation
Disclosure should be made of the audit committee's independence.	HKSA recommendation
A report of work done during the year and significant issues addressed including in respect of review of financial reports and internal controls.	HKSA recommendation

Related party transactions

- 4.6 It is important that shareholders are provided with sufficient information to understand transactions and balances with parties related to the company and the implications for the performance and financial situation of the company.

Corporate Governance Disclosure	Source
Details of directors' current account/loans to officers.	CO
Details of directors' interest in significant contracts.	CO, LR, GR
Details of management/administrative contracts.	CO
Details of connected party transactions.	LR, GR
Details of connected party transactions for which waiver was obtained.	LR
Details of service contracts with controlling shareholder.	LR, GR
Details of significant contracts with controlling shareholder.	LR, GR

Other mandatory disclosures

4.7 Other mandatory disclosures are set out below.

Corporate Governance Disclosure	Source
Details of sales and purchases with major customers and suppliers and any directors' interests.	LR, GR
Details of changes in auditors in the last three years.	LR, GR
Statement of compliance with the Code of Best Practice (Appendix 14 to the Listing Rules).	LR
Details of the names and qualifications of senior management.	GR
Details of any financial assistance given to employees/directors to purchase shares in the company.	CO
Where the controlling shareholder has pledged its interest in shares of the company to secure debts of the company.	LR, GR
Where the company has entered into a loan agreement that includes a condition imposing specific performance obligations on any controlling shareholder and breach of such obligation will cause a default in respect of loans that are significant to the operations of the company.	LR, GR
Where the company is in breach of the terms of significant loans.	LR, GR

Other voluntary disclosures

- 4.8 Companies should be encouraged to explain the process by which they ensure effective communications with shareholders.
- 4.9 In addition to their direct commercial objectives, companies are encouraged to disclose policies relating to their wider social responsibility including business ethics, the environment and other public policy commitments. Such information may be important for shareholders and other users to better evaluate the relationship between companies and the communities in which they operate and the steps that companies have taken to implement their objectives.
- 4.10 Human resource policies, such as programmes for human resource development or employee share ownership plans, can communicate important information on the competitive strengths of companies to market participants.
- 4.11 Companies are encouraged to provide information on key relationships with its employees, creditors, suppliers and other significant parties that may materially affect the performance of the company.

Corporate Governance Disclosure	Source
The company should explain the process by which it ensures effective communications with shareholders.	HKSA recommendation
The company should acknowledge its wider social responsibility (e.g. environmental protection).	HKSA recommendation
Disclosure should be made of the company's human resource policies, internal management structure and workplace development initiatives.	HKSA recommendation
Commentary should be given on the company's key relationships with its employees, creditors, suppliers and other significant parties.	HKSA recommendation
Disclosure should be made of the company's contribution to community service.	HKSA recommendation

ILLUSTRATIVE STATEMENT ON CORPORATE GOVERNANCE

DIRECTORS

The company is controlled through the Board of Directors which comprises four executive and three non-executive directors. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board has a formal schedule of matters reserved to it and meets monthly. It is responsible for overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of individual trading subsidiaries, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental and employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. All directors will submit themselves for re-election at least once every three years. Where subsidiaries have separate boards of directors, the minutes of their meetings are circulated to and reviewed by the Board of Directors.

Committees of the Board

The Board has established the following committees: the Audit Committee and the Remuneration Committee (see below).

Board meetings

There were 12 Board meetings during the year and those attending were as set out below:

	No. of meetings attended
Mr. A (Chairman)	11
Ms. B (Chief Executive)	12
Ms. C	10
Mr. D (non-executive)	11
Mr. E	10
Mr. F (independent non-executive)	12
Ms. G (independent non-executive)	10

AUDIT COMMITTEE

The Audit Committee consists of the three non-executive directors, two of whom are independent: Mr. D (Chairman), Mr. F and Ms. G. During the year the Audit Committee met 4 times with all members being in attendance. None of the members of the Committee has any personal financial interests (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the business. The Audit Committee oversees the financial reporting process and the adequacy and effectiveness of the company's system of internal control. During the year, the Committee carried out their own independent review of the interim and annual financial statements and financial reports and statements included in circulars of the company published during the year. And with the assistance of the internal audit department, which reports directly to the committee, the Committee completed its review of the adequacy and effectiveness of the company's systems of internal control and reported its findings and recommendations to the Board.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three non-executive directors, two of whom are independent: Mr. F (Chairman), Ms. G and Mr. D. None of the members of the Committee has any personal financial interests (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the business. The Committee consults the Chairman and the Chief Executive about its proposals and has access to professional advice from inside and outside the company. The Committee makes recommendations to the Board. No director plays a part in any discussion about his or her own remuneration.

Remuneration policy

Executive remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the company's position as market leader and to reward them for enhancing value to shareholders. The performance evaluation of the executive directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Committee. The remuneration of the non-executive directors is determined by the Board.

There are four main elements of the remuneration package for executive directors and senior management as follows: basic annual salary (including directors' fees) and benefits; annual bonus payments; share option incentives; and pension arrangements.

[Provide details about recommendations of the Committee]

INVESTOR RELATIONS

The company encourages two way communication with both its institutional and private investors. Extensive information about the company's activities is provided in the Annual Report and the Interim Report which are sent to shareholders. There is regular dialogue with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the company are welcomed and are dealt with in an informative and timely manner.

All shareholders have 21 days' notice of the Annual General Meeting at which all directors and Committee chairs are available for questions. All shareholders are encouraged to attend the Annual General Meeting.

In order to promote effective communication, the Company maintains its website on which financial and other information relating to the Group and its business are disclosed.

OTHER MATTERS

[Provide information on social responsibility matters such as environmental protection; on human resources, internal management structure and workplace development initiatives; on relationships with employees, creditors, suppliers and other significant parties; and on any other relevant additional information.]

By order of the Board

Company Secretary

[Date]

ILLUSTRATIVE DISCLOSURE IN RESPECT OF DIRECTORS' REMUNERATION, DIRECTORS' SHARE OPTIONS AND DIRECTORS' SHAREHOLDINGS

N.B. Companies should obtain the approval of the Board and consent of individual directors before publishing details of individual remuneration and share options.

Directors' Remuneration

Disclosure in respect of the remuneration of individual named directors may be included either in the relevant note to the financial statements dealing with directors' remuneration or in the statement on corporate governance.

	Fees HK\$'000	Salary HK\$'000	Retirement scheme HK\$'000	Housing allowance contributions HK\$'000	Benefits-in-kind/ Other allowances HK\$'000	Discretionary bonus HK\$'000	Total HK\$'000
Mr. A	X	X	X	X	X	X	X
Ms. B	X	X	X	X	X	X	X
Ms. C	X	X	X	X	X	X	X
Mr. D	X	X	X	X	X	X	X
Mr. E	X	X	X	X	X	X	X

Directors' Share Options

Disclosure in respect of the share options of individual named directors may be included either in the relevant section of annual report dealing with directors' share options or in the statement on corporate governance.

Name of director	Holding at 31.12.1999 No.	Options granted during year No.	Date of grant	Exercisable period	Exercise price	Options exercised during year No.	Options lapsed/ forfeited during year No.	Value realised (note 1)	Holding at 31.12.2000 No.
Mr. A	1,000,000	--	15.1.1999	1.2.1999-31.1.2001	HK\$1.50	1,000,000		HK\$300,000	--
	500,000	--	1.5.1999	1.6.1999-31.5.2001	HK\$1.60				500,000
	--	500,000	10.6.2000	1.7.2000-30.6.2001	HK\$1.80				500,000
	----- 1,500,000 -----					----- 1,000,000 -----		----- HK\$300,000 -----	----- 1,000,000 -----
Ms. B	1,000,000	--	15.1.1999	1.2.1999-31.1.2001	HK\$1.50	--		--	1,000,000
	500,000	--	1.5.1999	1.6.1999-31.5.2001	HK\$1.60	500,000		HK\$100,000	--
	----- 1,500,000 -----					----- 500,000 -----		----- HK\$100,000 -----	----- 1,000,000 -----
Ms. C	1,000,000	--	15.6.1999	1.7.1999-30.6.2000	HK\$1.80	--	1,000,000	--	--
Mr. D	--	500,000	1.12.2000	1.1.2001-31.12.2002	HK\$2.00	--	--	--	500,000

Note 1. Value realised is calculated as the excess of the market price on the day of exercise of options over the exercise price multiplied by the number of shares acquired as a result of the exercise of the options, irrespective of whether the related shares have been sold or not.

Note 2. The closing market price at the balance sheet date as at 31.12.2000 was HK\$2.20 per share.

Directors' Shareholdings

Disclosure in respect of directors' shareholdings may be included either in the directors' report or in the statement on corporate governance.

Name of Director	No. of Shares				Holding at 31.12.2000
	Holding at 31.12.1999	Purchased (including options exercised) during the year	Sold during the year	Holding at 31.12.2000	
Mr. A					
Personal Interests	1,000,000	1,100,000	200,000		1,900,000
Family Interests	--	--	--		--
Corporate Interests	500,000	--	200,000		300,000
Other Interests	--	--	--		--
Ms. B					
Personal Interests	--	500,000	--		500,000
Family Interests	--	--	--		--
Corporate Interests	--	--	--		--
Other Interests	--	--	--		--
Ms. C					
Personal Interests	--	--	--		--
Family Interests	2,000,000	--	500,000		1,500,000
Corporate Interests	500,000	200,000	--		700,000
Other Interests	--	--	--		--

ILLUSTRATIVE STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Companies Ordinance requires the directors to prepare financial statements for each financial year which give a true and fair view of its company's (or group's) state of affairs as at the end of the financial year and of its profit or loss for the year then ended. In preparing the financial statements, the directors are required to:

- (a) select suitable accounting policies and apply them on a consistent basis, making judgements and estimates that are prudent, fair and reasonable;
- (b) state the reasons for any significant departure from accounting standards; and
- (c) prepare the financial statements on the going concern basis, unless it is not appropriate to presume that the company will continue in business for the foreseeable future.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company (or group) and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

N.B. Such a statement of directors' responsibilities should be presented either within the directors' report or as a separate statement immediately before the auditors' report. For the latter, the statement has to be dated and signed-off by the Chairman or the Secretary on behalf of the Board.

CAPITAL STRUCTURE

Area	Disclosure requirement	Source	Location
Issuance of equity capital	<p>If, in the financial year, the company has issued any shares, the annual report should state the reason for making the issue, the classes of shares issued and, in respect of each class of shares, the number issued and the consideration received by the company for the issue.</p> <p>In the case of any issue for cash of equity securities made otherwise than to the company's shareholders in proportion to their shareholdings and which has not been specifically authorised by the shareholders:</p> <ul style="list-style-type: none"> • the reasons for making the issue; • the classes of equity securities issued; • in respect of each class of equity securities, the number issued, and their aggregate nominal value; • the issue price of each security; • the net price to the company of each security; • the names of the allottees, if less than six in number, and, in cases of six or more allottees, a brief generic description of them; • the market price of the securities concerned on a named date, being the date on which the terms of the issue were fixed; and • the use of the proceeds. 	<p>CO 129D(3)(g)</p> <p>LR App 16.11 GR 18.32</p>	Financial statements
Maturity profile of debts	<p>A statement is required, showing:</p> <ol style="list-style-type: none"> a) bank loans and overdrafts; and b) other borrowings of the group, <p>analysed over the following repayment terms:</p> <ul style="list-style-type: none"> • on demand or within a period not exceeding one year; • within a period of more than one year but not exceeding two years; 	<p>LR App 16.22 GR 18.21</p>	Financial statements

Area	Disclosure requirement	Source	Location
	<ul style="list-style-type: none"> • within a period of more than two years but not exceeding five years; and • within a period of more than five years. 		
Share buyback and reasons	<p>Disclosure should be made of particulars of any purchase, sale or redemption by the company, or any of its subsidiaries, of its listed securities during the financial year, or an appropriate negative statement. Such statement should distinguish between those listed securities which are purchased by the company (and, for Hong Kong companies, therefore cancelled) and those which are purchased by a subsidiary of the company. Disclosure should include the aggregate price paid or received by the company for such purchases, sales or redemptions and should distinguish between those securities purchased or sold:</p> <ul style="list-style-type: none"> • on the SEHK; • on another stock exchange; • by private arrangement; and • by way of a general offer. 	<p>LR App 16.10(4) GR 18.14</p>	<p>Financial statements</p>
Directors' interest in the company, its subsidiaries, and its associated corporations and substantial shareholders' interest in the company	<p>The company shall include the information relating to interests of directors, the chief executive and others as follows:</p> <p>A statement is required as at the end of the relevant financial year showing:</p> <ol style="list-style-type: none"> a) the interests (class and number of such securities) of each director and chief executive of the company in the equity or debt securities of the company or any associated corporation; and 	<p>LR App 16.13(1)&(2) GR 18.15</p>	<p>Directors' report</p>

Area	Disclosure requirement	Source	Location
<p>Directors’ interest in the company, its subsidiaries, and its associated corporations and substantial shareholders’ interest in the company (cont’d)</p>	<p>b) the details of any right to subscribe for equity or debt securities of the company granted to any director or chief executive of the company or to the spouse or children under age 18 of any such director or chief executive, and of the exercise of any such right,</p> <p>as recorded in the register required to be kept under section 29 of the SDIO or, if no such interest or right has been granted or exercised, a statement of this fact.</p> <p>Notes:</p> <p>a) “Associated corporation” means a corporation:</p> <ul style="list-style-type: none"> • which is a subsidiary or holding company of the listed company or a subsidiary of the listed company’s holding company; or • which is disclosed in the listed company’s financial statements in accordance with section 129(1) and (2) of the Companies Ordinance. <p>b) Interests of director or a “chief executive” extend to include interests held by:</p> <ul style="list-style-type: none"> • his or her spouse; • children under the age of 18; and • their respective controlled companies (with control of management or one-third of voting rights either directly or indirectly through another corporation in which they control one-third of voting rights). <p>This will include a director’s interest under a discretionary trust which holds interests in equity or debt securities of the company.</p> <p>c) For these purposes, a shadow director is deemed a director. “Shadow director” means a person in accordance with whose directions or instructions the directors of a corporation are accustomed to act.</p>	<p>SDIO 2(1)</p> <p>SDIO 31</p> <p>SDIO 29(6) & 2(1)</p>	

Area	Disclosure requirement	Source	Location
<p>Directors' interest in the company, its subsidiaries, and its associated corporations and substantial shareholders' interest in the company (cont'd)</p>	<p>d) The SEHK requires that any statement showing such interests of directors and chief executives must set out the total number or amount of such securities in which each director and chief executive is interested, as recorded in the issuer's register of interests, and then separately distinguish such interests between four categories as follows:</p> <ul style="list-style-type: none"> • Personal interests - namely those beneficial interests in securities which are registered in the name of the director or chief executive or a nominee who holds the securities on his behalf and to his order (e.g. a street name), including interests in securities which he has contracted to purchase; • Family interests - namely those interests in securities which a director or chief executive is deemed or taken to have under the SDIO with respect to securities in which his spouse or his child under the age of 18 years are interested; • Corporate interests - namely those interests in securities which a director or chief executive is deemed or taken to have under the SDIO with respect to the interests of a corporation where he is either entitled to exercise (or is taken under the SDIO to be able to exercise) or control the exercise of one third or more of the voting power in general meetings of that corporation or where the corporation or its directors are accustomed to act in accordance with his directions or instructions; and 	<p>PN 5(3) GR 18.16</p>	

Area	Disclosure requirement	Source	Location
<p>Directors’ interest in the company, its subsidiaries, and its associated corporations and substantial shareholders’ interest in the company (cont’d)</p>	<ul style="list-style-type: none"> • Other interests - namely those interests in securities recorded in the register of interests which do not fall within one of the above categories. This would include, by way of example, those interests which a director or chief executive is deemed or taken to have under the SDIO with respect to options which entitle a director or chief executive to call for the delivery of securities or to acquire an interest in securities and any interests in securities which arise as a result of the director or chief executive being a beneficiary or trustee of a trust (and which are not included as personal interests). <p>e) In the case of ‘corporate’ and ‘other’ interests, a note setting out the nature of such interests should be provided to assist shareholders and investors to understand how the interests arise.</p> <p>f) Particulars should be given of the extent of any duplication which occurs, between the interests of directors, chief executives, shareholders, their associates and substantial shareholders.</p> <p>Where interests in securities arising from the holding of securities as qualifying shares are not disclosed pursuant to the exception allowed in LR App.16.13(2), a general statement should be made to indicate that the directors hold qualifying shares.</p> <p>Note: Non-beneficial interests of directors need not be disclosed if they are holdings of qualification shares or if there is a legally enforceable declaration of trust in favour of the parent company or that subsidiary, and such interest is held solely for the purpose of ensuring that the relevant subsidiary has more than one member.</p>		

Area	Disclosure requirement	Source	Location
Directors' interest in the company, its subsidiaries, and its associated corporations and substantial shareholders' interest in the company (cont'd)	<p>A statement is required as at the end of the relevant financial year, showing the interests as recorded in the register required to be kept under section 16(1) of the SDIO and the amount of such interest, or if there is no such interest recorded in the register, a statement of that fact.</p> <p>Notes:</p> <p>a) A person's notifiable interests in shares include those of:</p> <ul style="list-style-type: none"> • his or her spouse; or any child of his/hers under 18; • their respective controlled companies (with the control of management or one third of the voting rights of such companies either directly or through another corporation in which they control one third of the voting rights); and • parties to any agreement to acquire shares in the relevant share capital of the company, if (i) the agreement includes provisions imposing obligations or restrictions on the use, retention or disposal of their interest and (ii) any interest in the company's shares is in fact acquired by any of the parties pursuant to an agreement. <p>b) "Notifiable interest" means an interest in shares in the relevant share capital of an aggregate nominal value not less than 10% of the nominal value of that relevant share capital.</p> <p>c) "Relevant share capital" means the company's share capital of a class carrying voting rights at general meetings of the company.</p>	<p>LR App 16.13(3) GR 18.17</p>	

BOARD STRUCTURE AND FUNCTIONING

Area	Disclosure requirement	Source	Location
<p>Directors' and senior managers' biographical details</p>	<p>Brief biographical details should be provided in respect of the directors and senior managers of the enterprise. Such details will include name, age, positions held with the enterprise, length of service with the enterprise and such other information (which may include business experience) of which shareholders should be aware, pertaining to the ability or integrity of such persons.</p> <p>Notes:</p> <ul style="list-style-type: none"> a) Where any of the directors or senior managers are related, having with any other director or senior manager any one of the relationships set out below, that fact should be stated. The relationships are spouse; any person cohabiting with the director or senior manager as a spouse; and any relative, meaning a child or step-child regardless of age, a parent or step-parent, a brother, sister, step-brother or step-sister, a mother-in-law, a father-in law, son-in-law, daughter-in-law, brother-in-law or sister-in-law. b) Where any director of the company is a director or employee of a company which has an interest in the share capital of the company which would fall to be disclosed to the company under the provisions of part II of the Securities (Disclosure of Interests) Ordinance, that fact shall be stated. c) It is the responsibility of the directors of the company to determine which individual or individuals constitute senior management. Senior management may include directors of subsidiaries, heads of divisions, departments or other operating units within the group as, in the opinion of the company's directors, is appropriate. 	<p>LR App 16.12 CO S129D(3)(i) GR 18.39</p>	<p>Directors' report</p>

Area	Disclosure requirement	Source	Location
Directors' service contract	<p>A statement is required as to the period unexpired of any service contract, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation), of any director proposed for re-election at the forthcoming annual general meeting or, if there are no such service contracts, a statement of this fact.</p> <p>A statement of the length of the term of appointment of all non-executive directors.</p>	<p>LR App 16.14 GR 18.24(1)</p> <p>GR 18.24(2)</p>	Directors' report
Directors' interest in competing business	Where any of the directors (other than the independent non-executive directors) is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the group, details of such interests should be prominently disclosed in the annual report.	<p>LR 8.10(2)(b) GR 18.45</p>	Directors' report
Number of board meetings	Disclosure should be made of the number of board meetings held during the year.	HKSA recommendation	Corporate governance statement
Attendance at board meetings	Attendance records of individual directors at board meetings during the year should be disclosed.	HKSA recommendation	Corporate governance statement
Responsibilities of the board	Disclosure should be made of the responsibilities of the board.	HKSA recommendation	Corporate governance statement
Statement of Directors' Responsibilities for the Financial Statements	A statement in the annual report should be made by the directors acknowledging their responsibility for the preparation of the financial statements.	HKSA recommendation	Statement of Directors' Responsibilities for the Financial Statements

Area	Disclosure requirement	Source	Location
Contribution and role of non-executive directors	The contribution and role of non-executive directors should be explained.	HKSA recommendation	Corporate governance statement
Functions of committees	The functions of committees of the board should be explained.	HKSA recommendation	Corporate governance statement
Directors' appointment and termination arrangements	Disclosure of details of directors' appointment and termination arrangements. (Directors' service contract should not exceed 3 years without shareholders' approval.)	HKSA recommendation	Corporate governance statement

MANAGEMENT DISCUSSION AND ANALYSIS

In recent years, the focus of users of externally reported financial information has been re-directed to the MDA in search of a detailed and analytical review of operations and the financial state of affairs. Users look to the MDA for transparent and comprehensive disclosure of events during the reporting period and the position at the end of the reporting period. The MDA is now seen as a key means by which the directors can demonstrate effective corporate governance.

In general terms, by focusing on significant changes in the group's performance, the MDA should:

- include any significant information needed for investors to make an informed assessment of the trend in its activities and results;
- identify and explain any special factor which has influenced its activities or results;
- provide a comparison with the corresponding period in the preceding financial year; and
- give an indication of the group's prospects for the current financial year.

In addition to the requirements of the Listing Rules, there are two other useful sources of guidance for directors in formulating the MDA. These are the SEHK's "Reference for Disclosure in Annual Reports" and the HKSA's "A Guide for Directors' Business Review in the Annual Report" (although both are directed towards annual reports, they will also be helpful for considering the matters to be included in the MDA for interim reporting purposes).

The HKSA's "A Guide for Directors' Business Review in the Annual Report" was published in November 1998, prompted by a desire to assist and encourage listed enterprises in improving the quality of discussion included in the MDA. Under the framework suggested by that Guide, it is recommended that the Business Review be divided into an Operating Review and a Financial Review. Following this guidance, illustrative contents for MDA are set out below. The minimum contents of the MDA, based on the requirements of the Listing Rules and the GEM Listing Rules, are highlighted in bold italics.

The Operating Review

Area	Disclosure requirement	Source
Operating results for the year	<p>Highlight the significant changes in operating performance during the year commenting on:</p> <ul style="list-style-type: none"> • significant changes in <i>segmental information</i> and their effect on results for the year, covering <i>changes in the industry segment, developments within the segment and their effect on the results of that segment;</i> 	<p>LR App 16.32(6) GR 18.41(6)</p>

Area	Disclosure requirement	Source
<p>Operating results for the year (cont'd)</p>	<ul style="list-style-type: none"> • changes in the industry or the environment in which the business operates i.e. <i>changes in market conditions, new products and services introduced or announced and their impact on the group's performance</i>; and • developments within the business and their effect on the results. <p>Discuss <i>material acquisitions and disposals of subsidiaries and associates</i> during the year. Disclose the underlying reasons for disposals and, in particular, include fair comment on the reasons for disposals, e.g. in order to cut losses, no longer considered to be strategic etc.</p> <p>Discuss other special factors that have affected the results for the year. This includes overall influences, the effect of which cannot be quantified, as well as specific abnormal non-recurring items.</p> <p><i>In the case of the annual accounts for the financial year in which the enterprise's securities are first admitted to listing on GEM and the annual accounts for the 2 financial years thereafter, provide details of the actual business progress of the enterprise compared with the information provided in the statement of business objectives (as set out in the listing document) together with explanations for any material differences (including as to the use of proceeds, as indicated in the listing document).</i></p>	<p>LR App 16.32(5) GR 18.41(5)</p> <p>GR 18.43</p>
<p>Employees</p>	<p><i>Where applicable, provide details of the number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes.</i></p>	<p>LR App 16.32(7) GR 18.41(7)</p>
<p>Dynamics of the business</p>	<p>Discuss the main positive and negative factors and influences that may have major effects on future operations and results, whether or not they were significant in the year.</p> <p>Identify and comment on the management of principal risks and uncertainties in the main lines of business, and describe, in quantitative terms, the potential impact of those risks on the results.</p>	<p>HKSA recommendation</p>

Area	Disclosure requirement	Source
Prospects and plans for the future	<i>Discuss the state of the group's order book (where applicable) and prospects for new business, including new products and services introduced or announced.</i>	LR App 16.32(3) GR 18.41(3)
	<i>Discuss changes in significant investments held, their performance during the year and their future prospects.</i>	LR App 16.32(4) GR 18.41(4)
	<i>Discuss future plans for material investments or capital assets and their expected sources of funding.</i>	LR App 16.32(9)
	The discussion should indicate the major business segments and geographical areas accounting for a material portion of the total, and major projects involved.	
Post balance sheet date events	Indicate and discuss the impact of post balance sheet date events on the enterprise's current and future operating and financial position.	HKSA recommendation

The Financial Review

Area	Disclosure requirement	Source
Attributable return to shareholders	<p>Discuss the overall return attributable to shareholders, in terms of dividends/dividend policy and increases in shareholders' funds, and comment on:</p> <ul style="list-style-type: none"> • contributions from operating performance of various business units; • significant gains and losses realised, including abnormal non-recurring items; • movements to/from reserves; and • comparison between results for the year and dividends, both in total and in per share terms. 	HKSA recommendation
Accounting policies/ changes in accounting policies	<p>Indicate and explain any subjective judgements and arbitrary allocations to which the financial information is particularly sensitive.</p> <p>Disclose the reasons for any changes in accounting policies and their impact on the financial information, and for any significant departure from accounting principles generally accepted in Hong Kong.</p>	HKSA recommendation

Area	Disclosure requirement	Source
<p>Capital structure and treasury policy</p>	<p><i>Discuss the capital (equity and debt) structure in terms of:</i></p> <ul style="list-style-type: none"> • <i>issue of equity capital;</i> • <i>maturity profile of debts;</i> • <i>type of capital (financial) instruments used; and</i> • <i>currency and interest rate structure.</i> <p>This discussion should include comment on relevant ratios, such as interest cover and debt/equity ratio and management’s intended financial targets.</p> <p><i>State the capital funding and treasury policies and objectives, which should cover:</i></p> <ul style="list-style-type: none"> • management of interest rate risk; • management of maturity and average life of debts; • management of exchange rate risk; and • management of surplus cash. <p>Discuss the implementation of and deviation from those policies in the year, in terms of:</p> <ul style="list-style-type: none"> • the manner in which treasury activities are controlled; • <i>the currencies in which borrowings are made and in which cash and cash equivalents are held;</i> • <i>the extent to which borrowings are at fixed interest rates;</i> • <i>the use of financial instruments for hedging and speculative purposes;</i> • <i>the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments;</i> and • the use of significant funds for new or non-core business. 	<p>LR App 16.32(2) GR 18.41(2)</p>

Area	Disclosure requirement	Source
Capital structure and treasury policy (cont'd)	<p><i>Provide details of exposure to fluctuations in exchange rates and any related hedges.</i></p> <p>Explain the purposes and effect of major financing transactions undertaken up to the date of approval of the report.</p> <p>Discuss the effect of interest cost on profits, and the potential impact of interest rate changes.</p> <p>State whether the directors have obtained share issue and share buyback mandates from shareholders, and disclose the reasons for share buybacks.</p>	LR App 16.32(11)
Taxation	<p>Where the overall tax charge is significantly different from a 'standard' tax charge (i.e. the normal Hong Kong tax rate), the main reasons for the difference between the actual and 'standard' tax charges should be discussed.</p>	HKSA recommendation
Liquidity and financial resources	<p><i>Discuss the group's liquidity and financial resources at the balance sheet date, which should include comments on:</i></p> <ul style="list-style-type: none"> • <i>the level of borrowings and gearing at the balance sheet date;</i> • <i>the seasonality of borrowing requirements [as indicated by the peak level of borrowings during that period]; and</i> • <i>the maturity profile of borrowings and committed borrowing facilities.</i> <p><i>The basis on which the gearing ratio is computed should be disclosed.</i></p> <p>The above discussion should also refer to:</p> <ul style="list-style-type: none"> • the funding requirements for capital expenditure commitments and authorisations; and • restrictions on the ability to transfer funds from one part of the group to meet the obligations of another part of the group, which may include exchange controls and tax consequences of transfer. 	LR App 16.32(1) GR 18.41(1) LR App 16.32(10) App 16.32(1) GR 18.41(1)

Area	Disclosure requirement	Source
Liquidity and financial resources (cont'd)	<p><i>Provide details of charges on group assets.</i></p> <p>Indicate covenants with lenders which restrict the use of credit facilities, and any negotiation with the lenders on the above covenants, as well as any breaches of such covenants that have occurred or are expected to occur, together with measures taken or proposed to remedy the situation.</p> <p>Comment on special factors that influence cash generated from operations and other cash inflows. Indicate and explain where segmental cash flows are significantly out of line with segmental profits.</p>	LR App 16.32(8)
Going concern	Discuss the going concern status of the company.	HKSA recommendation
Off-balance sheet items	Comment on the impact of off-balance sheet assets and <i>liabilities</i> of the group.	LR App 16.32(12)

REMUNERATION

Area	Disclosure requirement	Source	Location
Directors' emoluments	<p>The information to be provided in respect of directors' emoluments prepared in accordance with sections 161 and 161A of the Companies Ordinance should include the following particulars:</p> <ol style="list-style-type: none"> (1) the aggregate of the directors' fees for the financial year; (2) the aggregate of the directors' basic salaries, housing allowances, other allowances and benefits in kind; <p>Note:</p> <p>Where a director is contractually entitled to bonus payments which are fixed in amount, such payments are more in the nature of basic salary and accordingly should be disclosed under this heading.</p> <ol style="list-style-type: none"> (3) the aggregate of contributions to pension schemes for directors or past directors for the financial year; (4) the aggregate of bonuses paid or receivable by directors which are discretionary or are based on the company's, the group's or any member of the group's performance for the financial year; <p>Note:</p> <p>Where a director is contractually entitled to bonus payments which are determined as a percentage of turnover or profits of the company or any of its subsidiaries, then such payment should be disclosed under this heading.</p> <ol style="list-style-type: none"> (5) the aggregate of amounts paid during the financial year or receivable by directors as an inducement to join or upon joining the company; 	<p>LR App 16.24 CO S161 GR 18.28 & 18.29</p>	<p>Financial statements</p>

Area	Disclosure requirement	Source	Location
<p>Directors' emoluments (cont'd)</p>	<p>(6) the aggregate of compensation paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group distinguishing between contractual and other payments;</p> <p>Note: For GEM companies, the information required (1) to (6) above must be analysed by individual director or past director, with separate identification of non-executive directors. However, it is not necessary to name the individuals concerned.</p> <p>(7) an analysis showing the number of directors whose emoluments (being amounts paid under (1) to (6) above) fell within bands from HK\$nil up to HK\$1,000,000 or into higher bands (where the higher limit of the band is an exact multiple of HK\$500,000 and the range of the band is HK\$499,999); and</p> <p>Note: If the company is incorporated or otherwise established in the PRC, the company should disclose the above information for directors and supervisors.</p> <p>(8) particulars of any arrangement under which a director has waived or agreed to waive any emoluments.</p>		

Area	Disclosure requirement	Source	Location
Directors' emoluments (cont'd)	<p>Note:</p> <p>Where a director has agreed to waive future emoluments, particulars must be given together with those relating to emoluments which occurred during the past financial year. This applies in respect of emoluments from the company or any of its subsidiaries or other persons.</p>		
Emoluments paid to independent non-executive directors	<p>The directors' fees and any other reimbursement or emolument payable to independent non-executive directors should be separately disclosed.</p>	<p>LR App 14.6 GR 5.30</p>	<p>Financial statements</p>
Employee's emoluments	<p>Equivalent information is to be provided in respect of those five individuals whose emoluments (excluding amounts paid or payable by way of commissions on sales generated by the individual) were the highest in the company or the group for the year.</p> <p>Where all five of the five highest-paid individuals are directors of the company and the information required to be disclosed by this paragraph has been disclosed in directors' remuneration as required above, a statement of this fact shall be made and no additional disclosure is required.</p> <p>Where the details of one or more of the individuals whose emoluments were the highest have not been included in directors' remuneration, the following information shall be disclosed:-</p> <ol style="list-style-type: none"> (1) the aggregate of basic salaries, housing allowances, other allowances and benefits in kind for the financial year; (2) the aggregate of contributions to pension schemes for the financial year; 	<p>LR App 16.25 GR 18.30</p>	<p>Financial statements</p>

Area	Disclosure requirement	Source	Location
<p>Employee's emoluments (cont'd)</p>	<p>(3) the aggregate of bonuses paid or receivable which are discretionary or are based on the company's, the group's or any member of the group's performance for the financial year;</p> <p>(4) the aggregate of amounts paid during the financial year or receivable as an inducement to join or upon joining the company;</p> <p>(5) the aggregate of compensation paid during the financial year or receivable for the loss of any office in connection with the management of the affairs of any member of the group distinguishing between contractual payments and other payments; and</p> <p>(6) an analysis showing the number of individuals whose remuneration (being amounts paid under (1) to (5) above) fell within bands from HK\$nil up to HK\$1,000,000 or into higher bands (where the higher limit of the band is an exact multiple of HK\$500,000 and the range of the band is HK\$499,999).</p> <p>Note: It is not necessary to disclose the identity of the highest paid individuals.</p>		
<p>Policy on directors' remuneration and share options</p>	<p>Disclosure should be made of policy on executive directors' remuneration and share options.</p>	<p>HKSA recommendation</p>	<p>Corporate governance statement</p>
<p>Non-executive directors' remuneration</p>	<p>Disclosure should be made of how, and by whom, the fees and other benefits of non-executive directors are determined.</p>	<p>HKSA recommendation</p>	<p>Corporate governance statement</p>

Area	Disclosure requirement	Source	Location
Analysis of directors' remuneration	Disclosure should be made of the analysis of directors' remuneration between "performance based" and "non-performance based" compensation.	HKSA recommendation	See Appendix 2
Analysis of directors' remuneration	Disclosure should be made of the remuneration of individual directors.	HKSA recommendation	Financial statements
Analysis of directors' remuneration	Disclosure should be made of the analysis of standard directors' remuneration between basic salaries, housing allowances, other allowances and benefits in kind.	HKSA recommendation	See Appendix 2
Share options	Disclosure by individual director of the aggregate value realised on the exercise of options during the year together with an indication of the closing market price of the shares at the balance sheet date.	HKSA recommendation	See Appendix 2
Remuneration committee	Disclosure should be made of the role and functioning of the remuneration committee, including the number of meetings during the year and the attendance of committee members at those meetings. Disclosure should also be made of the work undertaken by the remuneration committee during the year and of the significant issues addressed.	HKSA recommendation	Corporate governance statement

AUDIT COMMITTEE

Area	Disclosure requirement	Source	Location
General	<p>The following information should be disclosed:</p> <ul style="list-style-type: none"> the composition, by name, of the audit committee (which information should be included in the corporate information section of the annual report); the work undertaken by the audit committee during the financial year (which information should be included in the report of the directors or the review of operations); and the number of times that the audit committee met during the year. 	GR 18.44	Corporate information section of annual report or directors' report as appropriate
Composition	Disclosure should be made of the composition by name of the audit committee.	HKSA recommendation	Directors' report
Role and function	Disclosure should be made of the role and function of the audit committee.	HKSA recommendation	Corporate governance statement
Number of meetings	Disclosure should be made of the number of times the audit committee met during the year.	HKSA recommendation	Corporate governance statement
Attendance at meetings	Disclosure should be made of the attendance of audit committee members at meeting during the year.	HKSA recommendation	Corporate governance statement
Statement on independence	Disclosure should be made of the independence of the audit committee.	HKSA recommendation	Corporate governance statement
Report of work done	Disclosure should be made of the work undertaken by the audit committee during the financial year and significant issues addressed including in respect of review of financial reports and internal controls.	HKSA recommendation	Corporate governance statement

RELATED PARTY TRANSACTIONS

Area	Disclosure requirement	Source	Location
<p>Directors current accounts / loans to officers</p>	<p>In respect of any loan made by the company or its subsidiaries, or guarantee or security provided by the company or its subsidiaries in respect of a loan made by someone else, to:</p> <ul style="list-style-type: none"> a) a person who, whether or not he was an officer of the company or a director of its holding company at the time the loan was made, is such an officer or director at any time during the financial year in respect of which the accounts are made up; or b) a body corporate in which a director of the company, at any time during the financial year, held (jointly or severally or directly or indirectly) a controlling interest, whether or not such controlling interest was so held at the time the loan was made; or c) in the case of a loan made by the company to a person who is- <ul style="list-style-type: none"> i) a person connected with a director of the company at any time during the financial year when the loan is outstanding; or ii) a person connected with a director of the company's holding company at any such time; or iii) a body corporate in which a person referred to in subparagraph (i), at any time during the financial year, held (jointly or severally or directly or indirectly) a controlling interest, d) whether or not he was such a person or such controlling interest was so held at the time the loan was made, e) being a loan which either is made during that financial year or, if made before it, is outstanding at any time during that financial year. 	<p>CO S161B</p>	<p>Financial statements</p>

Area	Disclosure requirement	Source	Location
<p>Directors current accounts / loans to officers (cont'd)</p>	<p>The company should disclose the following particulars of every relevant loan made by the company:</p> <ul style="list-style-type: none"> a) the name of the borrower and, if this subsection applies to a loan - <ul style="list-style-type: none"> i) by reason of the borrower's being connected with a director of the company or of its holding company; or ii) where the borrower is a body corporate, by reason of the fact that a director of the company or a person connected with him has held (jointly or severally or directly or indirectly) a controlling interest therein, the name of that director; b) the terms of the loan, including the rate of interest and the security therefore, if any; c) the amount outstanding on the loan, in respect of principal and interest, at the beginning and at the end of the company's financial year and the maximum amount so outstanding during that financial year; and d) the amount of interest which, having fallen due, has not been paid and the amount of any provision made in respect of any failure or anticipated failure by the borrower to repay the whole or part of the loan or to pay the whole or part of any interest thereon. <p>And the following particulars in respect of such a loan in which the company provided guarantee, or security :</p> <ul style="list-style-type: none"> a) the name of the borrower and, if the guarantee or security was made to - <ul style="list-style-type: none"> i) a borrower who is being connected with a director of the company or of its holding company; or ii) a borrower who is a body corporate, in which a director of the company or a person connected with him has held (jointly or severally or directly or indirectly) a controlling interest therein, 		

Area	Disclosure requirement	Source	Location
Directors current accounts / loans to officers (cont'd)	<p>the name of that director;</p> <p>b) the maximum liability of the company under the guarantee or in respect of the security both at the beginning and at the end of the financial year;</p> <p>c) any amount paid and any liability incurred by the company for the purpose of fulfilling the guarantee or discharging the security (including any loss incurred by the company by reason of the enforcement of the guarantee or security).</p>		
Directors' interest in significant contracts	<p>The report should disclose details of the interests, whether direct or indirect, of directors in contracts with the company or any of the company's subsidiaries or holding companies or fellow subsidiaries at any time during the financial year, including:</p> <p>a) a statement of the contract's existence, or of its having existed;</p> <p>b) the names of the parties thereto (other than the company);</p> <p>c) the name of the director, if not a party to the contract; and</p> <p>d) the nature of the contract and the director's interest therein.</p> <p>If there has been no such contract, a statement of this fact.</p> <p>Notes:</p> <p>a) This requirement is only applicable if the contract is significant to the company's business and the director's interest is material.</p> <p>b) It is not applicable to directors' service contracts or contracts between the company and another company where the director's only interest is by virtue of being a director of that other company.</p>	<p>LR App 16.15 CO S129D(3)(j) GR 18.25</p>	<p>Directors' report</p>

Area	Disclosure requirement	Source	Location
<p>Directors' interest in significant contracts (cont'd)</p>	<p>c) A "contract of significant" is one which represents in amount or value a sum equal to 5% or more of:</p> <ul style="list-style-type: none"> • In the case of a capital transaction or a transaction of which the principal purpose is the granting of credit, the net tangible assets of the company; or • In other cases, the total purchases, sales, payments or receipts, as the case may be, of the company. <p>Where the company has subsidiaries, comparison must be made with the purchases, sales, payments, receipts or net tangible assets of the group on a consolidated basis.</p> <p>d) A contract is regarded as a "contract of significance" to a company if the omission of information relating to that contract could have changed or influenced the judgement or decision of a person relying on the relevant information.</p>		
<p>Management / Administrative contract</p>	<p>Where the company enters into any contract whereby any individual, firm or body corporate undertakes the management and administration of the whole or any substantial part of the company's business, a statement should be presented of the existence and duration of the contract and the name of any director interested therein for any year the contract is in force.</p>	<p>CO S162A(1)</p>	<p>Directors' report</p>

Area	Disclosure requirement	Source	Location
<p>Connected party transactions</p>	<p>The directors' report have to disclose the following information in respect of certain connected party transactions:</p> <p>(A) the date of the transaction, the parties thereto and a description of their connected relationship;</p> <p>(B) a brief description of the transaction and the purpose of the transaction;</p> <p>(C) the total consideration and the terms (including, where relevant, interest rates, length of repayment period and security, if any); and</p> <p>(D) the nature and extent of the interest of the connected person in the transaction.</p> <p>Notes:</p> <p>a) The Exchange may grant a waiver from any or all of the requirements relating to connected transactions but require details of the transaction to be included in the annual report and accounts.</p> <p>b) A connected transaction is:</p> <ul style="list-style-type: none"> • Any transaction between a listed company or any of its subsidiaries and a connected person; and • An acquisition or realisation by a listed company or any of its subsidiaries of an interest in a company, a substantial shareholder of which is or is proposed to be, a director, chief executive or controlling shareholder of the listed acquiring or realising company or any of its subsidiaries or an associate of such a director, chief executive or controlling shareholder of the listed company or any of its subsidiaries. 	<p>LR 14.25 GR 20.24, 34 & 35</p>	<p>Directors' report</p>

Area	Disclosure requirement	Source	Location
Connected party transaction for which waiver was obtained	Details of the transactions have to be disclosed.	LR 14.23	Directors' report
Service contracts with controlling shareholder	Particulars of any contract of significance for the provision of services to the company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.	LR App 16.16(2) GR 18.27	Directors' report
Significant contracts with controlling shareholder	<p>Particulars of any contract of significance between the company, or one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries.</p> <p>Note:</p> <p>"Controlling shareholder" means any shareholder entitled to exercise, or to control the exercise of, 35% (30% in case of PRC company) (or such lower amount as specified in the Takeover Code as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the company or one which is in a position to control the composition of a majority of the board of directors.</p>	LR App 16.16(1) GR 18.26	Directors' report

OTHER MANDATORY DISCLOSURES

Area	Disclosure requirement	Source	Location
Major customers and suppliers	<p>The following information is required to be disclosed in respect of the major customers and suppliers:-</p> <p>(1) the percentage of purchases attributable to the group's largest supplier;</p> <p>(2) the percentage of purchases attributable to the group's 5 largest suppliers combined;</p> <p>(3) the percentage of turnover or sales attributable to the group's largest customer;</p> <p>(4) the percentage of turnover or sales attributable to the group's 5 largest customers combined;</p> <p>(5) the interests of any of the directors; their associates; or any shareholder (which to the knowledge of the directors owns more than 5% of the company's share capital) in the suppliers or customers disclosed under (1) to (4) above or, if there are no such interests, a statement to that effect;</p> <p>(6) in the event that the percentage which would fall to be disclosed under (2) above is less than 30, a statement of that fact shall be given and the information required by(1), (2) and (5) (in respect of suppliers) may be omitted; and</p> <p>(7) in the event that the percentage which would fall to be disclosed under (4) above is less than 30, a statement of that fact shall be given and the information required by (3), (4) and (5) (in respect of customers) may be omitted.</p>	<p>LR App 16.31 GR 18.40</p>	<p>Directors' report</p>

Area	Disclosure requirement	Source	Location
Major customers and suppliers (cont'd)	<p>Notes:</p> <p>a) 'Customer' for the purpose of this disclosure means, other than in relation to consumer goods or services, the ultimate customer, and in relation to consumer goods or services the ultimate wholesale or retailer. (If the group's business incorporates the wholesaling or retailing operation, then customer refers to the ultimate customer.)</p> <p>b) 'Supplier' for the purpose of this disclosure means the ultimate supplier of items which are not of a capital nature. References to supplier are primarily to those who provide goods or services to the group's business and which are required on a regular basis to enable the group to continue to supply or service its customers. Suppliers of goods or services which are freely available from a range of suppliers at similar prices, or which are otherwise freely available (e.g. utilities), are excluded.</p>		
Change of auditors	Disclosure should be made of details of any change in the company's auditors in any of the preceding three years.	LR App 16.30 GR 18.42	Directors' report
Statement of compliance with the Code of Best Practice	<p>A statement is required as to whether or not the company has complied with Appendix 14 throughout the accounting period covered by the annual report.</p> <p>A company that has not complied with Appendix 14, or complied with only part of Appendix 14 or (in the case of requirements of a continuing nature) complied for only part of such period, must specify the paragraphs of Appendix 14 with which it has not complied and (where relevant) for what part of the period such non-compliance continued, and give reasons for any non-compliance.</p>	LR App 16.34	Directors' report
Senior management	<p>The full name and professional qualifications (if any) of:-</p> <ul style="list-style-type: none"> — the company secretary; — the qualified accountant of the company appointed pursuant to GR 5.10; and — the compliance officer of the company appointed pursuant to GR 5.14. 	GR 18.44	Directors' report

Area	Disclosure requirement	Source	Location
Financial assistance to employees / directors to purchase shares of the company	<p>There shall be shown under separate headings-</p> <p>a) the aggregate amount of any outstanding loans made in respect of:</p> <p>i) provision in accordance with any scheme for the time being in force, of money for the purchase of, or subscription for, fully paid shares in the company or its holding company, being a purchase or subscription by trustees of or for shares to be held by or for the benefit of employees of the company or of any subsidiary of the company, including any director holding a salaried employment or office in the company or any subsidiary of the company;</p> <p>ii) the making by the company of loans to persons (other than directors) employed in good faith by the company with a view to enabling those persons to acquire fully paid shares in the company or its holding company to be held by them by way of beneficial ownership.</p>	<p>CO</p> <p>10th Sch 9(1)(c)</p> <p>S47C(4)(b)&(c)</p>	<p>Financial statements</p>
Timely public disclosures	<p>So long as the following circumstances continue to exist, the relevant information listed below should be disclosed in the annual report.</p> <p>1. The controlling shareholder of the company has pledged its interest in shares of the company to secure debts of the company or to secure guarantees or other support of obligations of the company. The following details are to be disclosed:</p> <p>a) the number and class of shares being pledged;</p> <p>b) the amounts of debts, guarantees or other support for which the pledge is made; and</p> <p>c) any other details that are considered necessary for an understanding of the arrangements.</p>	<p>PN 19 (3.6)</p> <p>GR 17.19</p>	<p>Directors' report</p>

OTHER VOLUNTARY DISCLOSURES

Area	Disclosure requirement	Source	Location
Relations with shareholders	The company should explain the process by which it ensures effective communications with shareholders.	HKSA recommendation	Corporate governance statement
Social responsibility	Disclosure should be made of the company's acknowledgement of its wider social responsibility including such matters (e.g. environmental protection).	HKSA recommendation	Corporate governance statement
Human resources	Disclosure should be made of the company's human resource policies, internal management structure and workplace development initiatives.	HKSA recommendation	Corporate governance statement
Quality of key relationships	Commentary should be given on the quality of the company's key relationships with employees, creditors, suppliers and other significant parties.	HKSA recommendation	Corporate governance statement
Community service	Disclosure should be made of the company's contribution to the community.	HKSA recommendation	Corporate governance statement

COMPOSITION OF THE HKSA**CORPORATE GOVERNANCE COMMITTEE (2000)**

Chairman:	Mr. Edward K.F. Chow	China Infrastructure Group Holdings PLC
Deputy Chairman:	Mr. David Tak-kei Sun	Ernst & Young
Members :	Professor Gary Biddle	The HK University of Science & Technology
	Mr. Michael Chan	Guoco Group Ltd.
	Mr. David Cheng	HLB Hodgson Impey Cheng
	Mr. Alexander K.C. Chu	Dresdner Bank AG Hong Kong Branch
	Mr. Richard George	Deloitte Touche Tohmatsu
	Mr. George Hongchoy	Jardine Fleming Securities Ltd.
	Mr. Gordon Jones	Companies Registry
	Mr. Quinn Y.K. Law	The Wharf (Holdings) Ltd.
	Mr. Peter Nixon	Potential Associates Limited
	Mr. James Siu	Li & Fung Ltd.
	Mr. Richard Sun	PricewaterhouseCoopers
	Mr. Carlson Tong	KPMG
	Ms. Nancy Tse	Hospital Authority
	Professor Judy Tsui	City University of Hong Kong
	Mr. Jim Wardell	Rutledge Group Limited
	Mr. Alan Wong Chiu Ming	Gammon Construction Ltd.
Secretary:	Ms. Winnie Cheung	Director of Professional Practices, HKSA

**COMPOSITION OF THE TASK FORCE FOR
THE GUIDE ON CORPORATE GOVERNANCE DISCLOSURE IN ANNUAL REPORTS**

Convenor:	Mr. Richard George	Deloitte Touche Tohmatsu
Members:	Professor Gary Biddle	The HK University of Science & Technology
	Mr. Edward K.F. Chow	China Infrastructure Group Holdings PLC
	Mr. Gordon Jones	Companies Registry
	Mr. David Tak-kei Sun	Ernst & Young
	Ms. Nancy Tse	Hospital Authority
Secretary:	Ms. Mary Lam	Assistant Director (Professional Practices), HKSA



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