

Summary of “Analysis of Corporate Governance Practice Disclosure in 2014 Annual Reports” (published by the Stock Exchange of Hong Kong Limited) November 2015

I. Notable findings

The top 5 CPs that have the lowest compliance rates are:

- (1) (A.2.1) Separation of the roles of the chairman and chief executive
 - (2) (A.6.7) Non-executive directors’ attendance at general meetings
 - (3) (A.4.1) Non-executive directors being appointed for a specific term, subject to re-election
 - (4) (E.1.2) Attendance of board chairman, chairmen of other committees at AGM
 - (5) (A.5.1) Establishment of a nomination committee which is chaired by the chairman of the board or an independent non-executive director
- (equal ranking) (A.4.2) Directors appointed to fill a casual vacancy being subject to election by shareholders at the first general meeting and every director being subject to retirement by rotation at least once every three years.

II. Points to note

- (1) (A.4.1) Non-executive directors being appointed for a specific term, subject to re-election

- The Exchange takes the view that whilst re-election of directors by rotation is widely recognized as a good corporate governance practice, it is separate from the requirement in CP A.4.1. Issuers should specify the period of appointment of non-executive directors of no more than three years . (paragraphs 59-62 on Page 13 of the report)

- (2) The Exchange’s comments on quality of disclosure

The Exchange commented on room of improvement regarding the quality of explanation given for deviating from some CPs. For instance:

- (A.5.1) Establishment of a nomination committee which is chaired by the chairman of the board or an independent non-executive director

The Exchange observed that where an issuer deviates from this CP, it should set out the circumstances that are peculiar to the company to explain such departure. This adds more value than “vague explanations” that appear to be a “boilerplate response made by a number of issuers”. (Paragraph 68-72, P. 14-5 of the report)

- (E.1.2) Chairman's attendance at AGM

The Exchange observed that an AGM is a major corporate event. Instead of merely stating that the absentee directors "had other commitments", an issuer "should explain the efforts made and the specific reasons for the relevant directors' non-attendance at the AGM". (Paragraphs 63-67, P. 14 of the report)

- Similar observations were made regarding C.P. A.6.7 (Non-executive directors' attendance at general meetings). (Paragraph 50 on p.12 of the report)
- In general, the Exchange commented that for the "comply or explain" regime to be effective, issuers need to give a proper consideration to their explanations to ensure that they are "as full as necessary to meet shareholders' expectations". A certain degree of "boilerplate" style explanations which were "vague and had been repeated year after year" were noted.