

## Press Release

To: Business/ Finance editors &amp; reporters

## Grant Thornton advises to enhance corporate governance regulatory framework for Hong Kong listed companies

**HONG KONG, 16 December 2007** – Major Hong Kong listed companies achieved high level of compliance to the Code on Corporate Governance Practices (the Code), according to the second annual Corporate Governance Review 2007 (the Review) conducted by the leading accounting firm Grant Thornton. However, a minimal improvement in the adoption of some recommended best practices in the Code is observed. Grant Thornton strongly advises the authorities to enhance the regulatory framework in the form of amendment to the Code that best practices and more disclosures to be included as mandatory requirements.

*Table 1: Percentage of companies claimed full compliance with the Code on Corporate Governance Practices*

	2006	2007
<b>Hang Seng Index companies (HSI)</b>	50%	54%
<b>Hang Seng Composite Index companies (HSCI)</b>	41%	49%
<b>Hang Seng China Enterprise Index companies (HSCEI)</b>	50%	73%

*Source: Grant Thornton's Second HSCI Corporate Governance Review 2007*

Results of the Review show that around 50% of the companies claimed full compliance with the Code's provision, but it is noteworthy to indicate that non-compliance of most companies has been narrowed down to mainly one area out of the 45 mandatory provisions of the Code.

"Full compliance could almost be achieved if roles of chairman and chief executive officer were separated in some of those non-fully compliant companies. With the longstanding tradition in Hong Kong for successful executives to work hard to occupy both posts, it probably may take more time before there will be a greater degree of separation between the two roles," said Patrick Rozario, Principal and Head of Business Risk Services at Grant Thornton.

With exception of a very few forward-thinking companies that are voluntarily adopting with some of the recommended best practices of the Code, most HSCI companies are only merely complying with the minimum standards and not taking initiatives to further develop their corporate governance environment.

"Grant Thornton believes the Review's results indicating that Hong Kong companies are ready for further development of their corporate governance environment and also believes improvements in corporate governance standards can be achieved without the need for regulatory changes," continued Patrick Rozario "however, Hong Kong market can only really keep pace with international standards if more absolute measures and guidance are provided. It would be encouraging to see enhancements in the Code by including best practices and more disclosures as mandatory requirements."

The Code currently implemented in Hong Kong was based on the UK Combined Code on Corporate Governance (UK Code), in which many of its mandatory provisions are only recommended best practices of the HK Code. The UK Code demands more of the company leaders and disclosures in area such as the balance of executive and independent non-executive directors; stronger independent elements of the board committees; the way how they review effectiveness of their internal control environment; selection of directors; and how companies direct and monitor corporate social and ethical performance.

Table 2: Comparison between Corporate Governance Review in Hong Kong (2007) and in the UK (2006)

	Hong Kong (2007)			UK (2006)
	HSI	HSCI	HSCEI	FTSE 100
Most board members are independent non-executive directors (at least half of the board comprised of independent non-executive directors for UK Review)	15%	10%	10%	79.6%
Level of description on consideration of independence of INEDs	None	0%	0%	0%
	Some	90%	93%	100%
	More	10%	7%	0%
All members of audit committee are independent non-executive directors	56%	60%	44%	95.9%
Establishment of nomination committee	51%	45%	56%	100%
Disclosure of the process used to identify, evaluate and manage significant risks faced by the company	62%	40%	22%	99%
Disclosure of a summary of the process the board and committees applied when companies review the	None	28%	41%	51%
	Some	36%	38%	39%

	Hong Kong (2007)			UK (2006)	
	HSI	HSCI	HSCEI	FTSE 100	
effectiveness of their internal control system	<i>More</i>	36%	21%	10%	31%
Disclosure of whether they had established dedicated structures and processes to direct and monitor the company's wider social environment and ethical performance, and whether this was reported to the board regularly		15%	6%	2%	99%

Source: Grant Thornton's Second HSCI Corporate Governance Review 2007

Patrick Rozario commented: "we can compare Hong Kong current performance to the UK companies' compliance status of the UK's FTSE100, based on a similar analysis conducted by Grant Thornton LLP in the UK last year. One could easily notice the improving level of compliance in different areas when recommended best practices have been upgraded to mandatory provisions."

"As business risks specialists at Grant Thornton, we look forward to seeing companies constantly reinventing themselves and improving their corporate governance standards, in order to achieve their business objectives and satisfy their shareholders, while simultaneously maintaining Hong Kong as an attractive capital market. Corporate governance changes do not necessarily produce immediate profits, but it is important for both the senior management and investors of listed companies to know what corporate governance concerns and why it matters, in order to achieve long-term prosperity in years to come," concluded Patrick Rozario.

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## NOTES TO EDITORS

### About Grant Thornton

Grant Thornton is one of the leading accounting, tax, and business advisory firms dedicated to serving the needs of growth companies. Grant Thornton in Hong Kong is a member of Grant Thornton International which has member firms in 110 countries in 520 offices. In Hong Kong and mainland China, Grant Thornton has offices in Hong Kong, Beijing, Shanghai, Guangzhou and Shenzhen, employing in excess of 1,000 people.

### Second HSCI Corporate Governance Review 2007

The second HSCI Corporate Governance Review 2007 was an extensive analysis conducted by Grant Thornton in October 2007 of the corporate governance practices of a total of 200 Hang Seng Composite Index (HSCI) companies. The review was carried out by answering 41 survey questions using information disclosed in the annual reports of the companies. Questions not only covered compliance with mandatory code provisions, but also recommended best practices of the Code on Corporate Governance Practices and particular subjects of interest. The Review findings were summarised in a 50-page report which can be obtained from Grant Thornton.

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