

## Press release

### Grant Thornton: Time for Hong Kong listed companies to raise the benchmark on corporate governance

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Hong Kong – According to Grant Thornton's Corporate Governance Review 2008, the corporate governance performance of Hong Kong major listed companies has gradually increased in a number of areas over the last three years. Listed companies should be able to cope with more provisions and requirements especially in the areas of board independence, risk management, executive remuneration and corporate social responsibility if they want to stay ahead of the current and future challenges.

Patrick Rozario, Principal and Head of Business Risk Services at Grant Thornton commented: "62% of the 200 Hang Seng Composite Index companies we surveyed claimed full compliance with the Code on Corporate Governance Practice provision this year. The figure shows an improvement from last year 49% and 2006's 41%. It indicates that Hong Kong companies are making efforts to comply with the Code and improve their level of transparency should be introduced."

The Hong Kong Stock Exchange launched the Code on Corporate Governance Practice provision in 2005 and has not made any revision since then. This consistency has given companies an opportunity to understand its requirements and recommendations fully, and to respond accordingly.

"However, some of the companies surveyed have failed to adopt all the Code's provisions. We also see a less-than-desirable percentage of companies that follow the recommended best practices of the Code on Corporate Governance Practice. To cope with the recent economic crisis, it is time to raise the benchmark, in order to encourage them to enhance their corporate governance practices, thereby making themselves more competitive in the global market," said Patrick Rozario.

#### Board independence

The number of companies reporting that only Independent Non-Executive Directors (INEDs) serve on their audit committee remained unchanged at 60%, which is still far short of full compliance. The rate of compliance for remuneration committees is also low. Only 19% of companies had only INEDs serving on this committee.

"The perception of independence will continue to be a strong element expected of top Hong Kong companies. Companies should therefore strive to improve their disclosure on the independence of board and committees. This is how a company demonstrates its ability

to make objective decisions and critically monitor its performance," commented by Patrick Rozario.

#### Risk management

The survey shows that only 35% of HSCI companies documented the existence of risk management process, 5% lower than the results in 2007. And the quality of the description of such process varies widely within this group.

"A risk management process is critical to ensuring a business have assessed known risks and planned for a variety of circumstances. Given the current economic state, companies will need to not only be more efficient in their operations, but also capable of quickly responding to changing conditions. We found this compliance trend to be quite surprising and would hope that in 2009 more companies realise the need to not only implement this function but also adequately disclose in their annual reports. We can only assume how much better the global economy might have fared had companies focused on this," Patrick Rozario continued.

#### Executive remuneration

59% of HSCI companies have disclosed the existence of performance incentives this year. It has demonstrated that performance incentives are embraced by many companies as a powerful motivational tool and a critical element in a company's success.

"Transparent disclosures in executive remuneration will entrust the regulators, investors and other key stakeholders that remuneration practices are sound," added Patrick Rozario.

#### Corporate social responsibility

It is encouraging to note that 19% of HSCI companies disclosed their corporate social responsibility (CSR) programme, which is up from 6% last year. Although this dramatic increase is encouraging, many of the disclosures may have been public relations initiatives in response to the rising pressures of public and media attention.

"The Code currently has no requirements for the CSR. However, with the growing concern of the public and governments about social and environmental issues, Hong Kong regulators may consider issuing guidance to help companies fulfil their duties in this area," said Patrick Rozario.

#### Worldwide changes in corporate governance requirements

In order to compete in the global market, it is also vital for Hong Kong companies to monitor the state of corporate governance throughout the world. Corporate governance is regarded as an important aspect of a responsible business in every economy in the world. Thus evolutionary changes to corporate governance guidelines and recommendations have been taking place in leading international financial marketplaces during the past year, including Australia, Japan, mainland China and the UK.

"In the current volatile business environment, expectations for companies to have a strong set of corporate governance principles are now higher than ever. Companies' commitment for effective corporate governance will continue to be an important component of successful companies and is a key driver in improving Hong Kong's status as a global leader in the marketplace," concluded Patrick Rozario.

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

	2006	2007	2008
<b>Hang Seng Composite Index companies</b>	41%	49%	62%
<b>Hang Seng Index companies</b>	50%	54%	56%
<b>Hang Seng China Enterprise Index companies</b>	50%	73%	76%

*Source: Grant Thornton's Corporate Governance Review 2008*

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Notes to editors:

*About Corporate Governance Review 2008*

The Corporate Governance Review 2008 is an extensive annual analysis conducted by Grant Thornton of the corporate governance practices of a total of 200 Hang Seng Composite Index (HSCI) companies. This is the third consecutive year, the review was carried out by answering 40 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 40-page report which can be obtained from Grant Thornton.

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