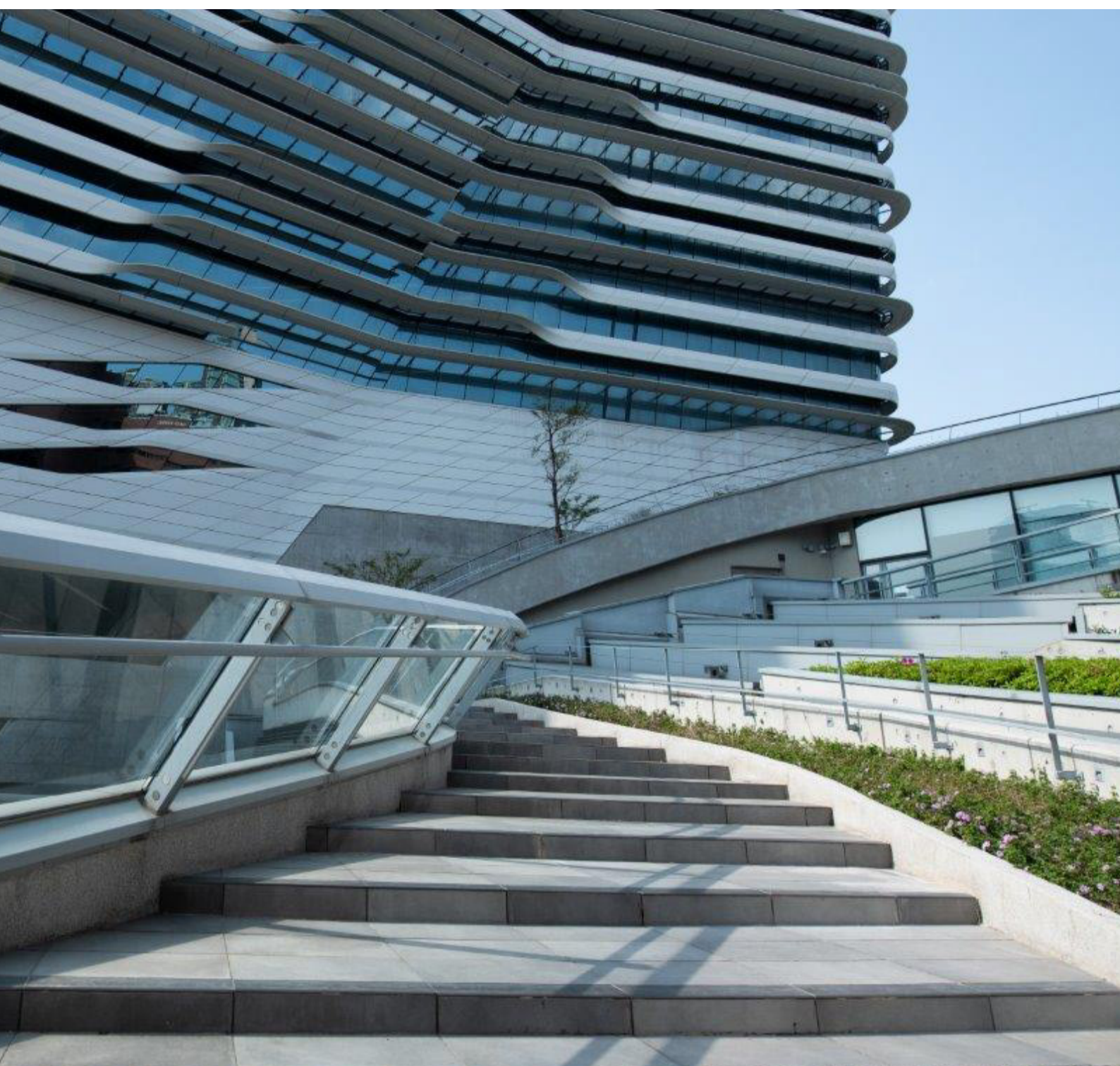


Corporate Governance Guide for Boards and Directors



Contents

Introduction	2
Directors' Duties and Board Effectiveness	3
Company Culture	9
Whistleblowing and Anti-corruption	13
Board Committees' Role and Functions	17
Board Diversity and Policy	21
Risk Management and Internal Control	24
Company Secretary	26
Corporate Governance of WVR Issuers	28

Disclaimer

Hong Kong Exchanges and Clearing Limited (“**HKEX**”) and/or its subsidiaries reserve the copyright over this guide (“**Guide**”). Whilst they endeavour to ensure the accuracy and reliability of the information provided in the Guide, HKEX and/or its subsidiaries do not guarantee its accuracy and reliability and accept no liability (whether in tort or contract or otherwise) for any loss or damage arising from any inaccuracy or omission or from any decision, action or non-action based on or in reliance upon the information contained in the Guide.

The Guide does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between the Guide and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules, or the Guide.

Introduction

Background

It has been an ongoing mission of The Stock Exchange of Hong Kong Limited (the “**Exchange**”) to promote the corporate governance standards of listed issuers and to enhance the quality of their boards of directors.

The governance framework embodied in the Corporate Governance Code (the “**CG Code**”) and the Listing Rules (the “**Rules**”) is designed to help boards to be effective, by providing benchmarks and best practice guidance for the delivery of good corporate governance. The CG Code prescribes mandatory requirements for disclosure in an issuer’s corporate governance report. It also sets out the principles representing the overarching direction to achieving good corporate governance, the code provisions (“**CP**”) on a “comply or explain” basis to help issuers apply the principles, and certain recommended best practices (“**RBP**”).

The Guide

The Exchange reviews the corporate governance framework from time to time to ensure it remains fit for purpose and continues to promote improvement in the quality of governance. In April 2021, the Exchange conducted a consultation on the CG Code and related Rules (“**2021 CG Consultation**”). The Exchange published the conclusion in December 2021 and amended the Rules (including the CG Code). The Guide consolidates guidance on various topics proposed in the 2021 CG Consultation and adopted, practices set out in the guidance published in 2018, certain notes in Appendix 14 to the Rules which would be more appropriately contained in a published guidance, and market feedback received. The Guide, which should be read alongside the Rules (including the CG Code), is intended to stimulate the board’s thinking on how they can carry out their role most effectively, including how the principles in the CG Code are applied and reported on.



“ The global regulatory landscape is changing rapidly, with an increased emphasis on the quality of governance. Investors and minority shareholders value how companies report their governance structure, including how the overall governance contributes to the companies’ long-term success. We seek to provide our markets with a framework and clear guidance for corporate governance disclosure, application, and implementation. We will continue to support the issuer community with training programmes to further enhance the quality of corporate governance for listed companies, and their boards. ”

Bonnie Y Chan
Head of Listing, HKEX

Directors' Duties and Board Effectiveness

The key functions of an effective board include:

- Shaping and monitoring the company's culture¹;
- Leading, directing and supervising an issuer's affairs to enable the long term success of the issuer²;
- Setting long term strategic objectives and strategic policies with appropriate focus on values creation and risk management³;
- Ensuring appropriate and adequate reporting in the annual reports⁴, including financial statements, ESG⁵, disclosures of the board's practices (e.g. the terms of references of its board committees), and various policies (e.g. shareholder communication, remuneration, nomination, dividend and diversity policies);
- Being accountable – the directors should be held accountable for their actions or inactions, and where appropriate, take the shareholders' and stakeholders' views into account in their decisions⁶;
- Ensuring adequacy of resources, staff qualifications and experience, especially for the issuer's accounting, internal audit and financial reporting functions⁷; and
- Ensuring the fullest communication with shareholders and the company's recognition of their interest⁸.



1 CP. A.1.1.

2 Principle A.1.

3 Principle D.2.

4 CG Code and Appendices 16 to the Main Board Rules (Disclosure of Financial Information).

5 Main Board Rule 13.91(5)(d) / GEM Rule 17.103(5)(d) and paragraph 4(2)(d) of the ESG Guide (Appendix 27 to the Main Board Rules / Appendix 20 to the GEM Rules).

6 Paragraph B(e) of the Mandatory Disclosure Requirements ("MDRs") of the CG Code.

7 CP D.2.2.

8 Page 14 of the [Guidelines for Directors](#), Hong Kong Institute of Directors, published in 2014.

All directors

Collective responsibility	<p>The board of directors is collectively responsible for an issuer’s management, operations and decisions⁹.</p> <p>All directors, executive directors (“EDs”), non-executive directors (“NEDs”) and independent non-executive directors (“INEDs”), are subject to the same legal duties under the law¹⁰ and the Rules. They must, in the performance of their duties as directors, act honestly and in good faith in the interests of the issuer as a whole, avoid actual and potential conflicts of interest and duty, and apply such degree of skill, care and diligence as may reasonably be expected of a person of their knowledge and experience and holding their offices within the issuer. Nevertheless, we recognise that EDs, NEDs and INEDs have different roles and functions, and the manner in which their duties should be discharged may also be different.</p>
Professional developments	<p>Directors should keep abreast of the latest developments in areas, including laws and regulations, the Rules, as well as industry-specific and innovative changes to enable them to discharge their duties and responsibilities for the benefit of the issuer. The issuer should also, at its own expense, provide induction training for its new directors and continuous professional developments for the current directors, tailored to meet each director’s needs¹¹.</p>
Understand issues	<p>Directors need to appreciate that they cannot be, and are not expected to be, a subject expert in all matters. They should nevertheless have a thorough understanding of the issues being discussed at board meetings to enable them to contribute to discussions and make informed decisions¹².</p>
Seek information	<p>Directors are entitled to seek further information and documentation from the management on the matters to be discussed at board meetings. They can also seek assistance from the issuer’s company secretary or external professional advisers at the issuer’s expense¹³. Directors are however expected to perform due diligence, exercise independent judgment and should not solely rely on professional advisers or what is volunteered by the management.¹⁴ To facilitate directors to properly discharge their duties and to identify potential issues quickly, the management should also provide the directors with all relevant documents and information, including¹⁵:</p> <ul style="list-style-type: none"> • Board papers and background information; • Disclosure documents; • Plans and budgets for specific projects; • Forecasts and monthly financial updates; and • Information supporting proposals by the management for new projects.
Disciplinary proceedings	<p>When subject to disciplinary proceedings for failing to discharge their responsibilities under the Rules, it is not a defence for the directors to claim that they did not receive adequate information from the issuer, or that they did not understand the relevant transactions and/or the Rules.</p>

9 Main Board Rule 3.08 / GEM Rule 5.01.

10 Section 465 of the Companies Ordinance (Cap.622 of the Laws of Hong Kong).

11 CPs C.1.1 and C.1.4.

12 Principle C.5.

13 CPs C.5.6 and C.6.4.

14 CP C.5.9.

15 CP C.5.10.

EDs	EDs are involved in the day-to-day operations of an issuer's businesses. Being members of the issuer's senior management, they should ensure that the management is accountable to the board, and ultimately to the shareholders. They should demonstrate willingness to listen to, and work closely with NEDs and INEDs ¹⁶ .
NEDs and INEDs	<p>NEDs are not part of an issuer's management and are not considered independent. INEDs are independent directors fulfilling the independence criteria under the Rules.</p> <p>NEDs and INEDs may not be industry practitioners or experts in the issuer's business, but may have other skills and experience in areas, such as legal, accounting, real estate and IT, which help to enhance the board's balance of skills, experience and diversity of perspectives¹⁷. They play an important role on the board and are expected to¹⁸:</p> <ul style="list-style-type: none"> • Keep up-to-date with the issuer's business affairs and be involved in scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitor performance reporting; • Bring independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct, and help review some of the board's major decisions, the issuer's performance in relation to corporate goals, and monitor performance reporting; • Take the lead where potential conflicts of interest arise; and • Serve on the audit, remuneration, nomination and other governance committees, if invited.

Prospective directors

Prior to accepting directorship, a prospective director should devote time to understand the issuer by participating in initiatives, such as visiting the company's operations and speaking to employees of all levels, looking at the major projects, and understanding the vision, culture, strategies and the competitive environment of the issuer. The prospective director should ensure that once he/ she takes on the role, he/ she will immediately be able to contribute to the board, particularly on providing advice on the strategies of the issuer.

We note that some INEDs were appointed to new listing applicants late in the listing process which means they may not have had sufficient time to gain a proper understanding of the applicant's affairs, and their responsibilities as directors of a listed company before the company is listed. A new listing applicant is recommended to appoint INEDs at least two months prior to listing.

¹⁶ CP C.2.9.

¹⁷ CP C.1.6.

¹⁸ Principle C.1 and CP C.1.2.



INED's time commitment

It is important that INEDs allocate sufficient time to discharge their responsibilities effectively and should not accept an invitation to serve as an INED on an issuer's board unless they can devote adequate time and effort to the work involved. Both legislation¹⁹ and the Rules on directors' duties have been strengthened to require INEDs to be fully engaged with the issuer's affairs both inside and outside the boardroom.

Issuers should explain whether a proposed INED would be able to devote sufficient time to the board if the person will be holding his seventh (or more) listed issuer directorship²⁰. For the avoidance of doubt, where an INED serving on various members within a consolidated group of listed companies, these will not be collectively regarded as one directorship. INEDs sitting on multiple boards should ensure that they can dedicate adequate attention to each board and board committee.

The nomination committee should be aware of the factors which may affect an individual's time commitment to the issuer, including²¹:

- Directorship at another issuer undergoing a period of particularly increased activity, such as an acquisition or a takeover;
- Chairing an issuer's board and/or board committees;
- Membership of board committees;
- Acting as chief executive officer or full time ED for another issuer; and
- Being an INED for multiple boards and taking up significant commitments at government or non-profit making bodies.

¹⁹ Part 10, Division 2 of the Companies Ordinance (Cap 622 of the Laws of Hong Kong– Directors' Duty of Care, Skill and Diligence).

²⁰ CP B.3.4. Also Section 3 of "Hong Kong Proxy Voting Guidelines" published by ISS Governance on 19 November 2020: ISS generally recommends to vote for the re/election of directors unless, among other things, the nominee sits on more than six public company boards.

²¹ CP C.1.5.

Enhancing communications with shareholders

An effective board will appreciate the importance of meaningful dialogues and two-way engagement with the shareholders, be proactive in ensuring that these take place and that the feedback is taken into account in the board's decision-making. Apart from being providers of capital, the ownership rights of the shareholders allow them to elect the directors who in turn are accountable to them.

To emphasise the importance of two-way communications, the CG Code requires disclosure of an issuer's shareholder communication policy²². The issuer should set out the communication channels available for the shareholders to express their views on various matters affecting the issuer, the steps taken by the issuer to solicit and understand the views of the shareholders and the stakeholders, and disclose actions taken (or to be taken) following the review of the policy and the metrics for measuring the outcome.

There are a number of ways which issuers can adopt to enhance communications with the shareholders. They include:

- Appointing a suitably qualified senior investor relations officer who has access to the board;
- Formalising periodic meetings with the shareholders;
- Enhancing disclosure in respect of INEDs' contribution or work done during the year in the annual report;
- Disclosing quantitative metrics of INEDs' engagement with the independent shareholders, such as the number of meetings held directly with the independent shareholders;
- Making themselves available for direct communication with the shareholders, where appropriate;
- Conducting board evaluations and disclosing a summary of it in the annual report and/or the corporate governance report; and
- Appointing one of the INEDs to be the lead or senior INED to provide a sounding board for the chairman in situations where the chairman is conflicted or unavailable to act, and to serve as an intermediary for the other directors and the shareholders (where contact through the normal communication channels are inappropriate or inadequate).

²² Paragraph L of the MDR.

Further information for shareholders

It is essential for the shareholders to understand the actions taken by the issuer and assess whether the issuer can create values (both in terms of cash generation and non-financial value) over the longer-term. Set out below are some scenarios where issuers can provide further information to the shareholders (in addition to the information required under the Rules):

Director's appointment	<ul style="list-style-type: none">• How a director's appointment contributes positively to the board, and how it fits into the succession plan of the company;• How the remuneration package of a newly appointed director supports the company's pay policy and whether there is any mismatch between the director's pay and the company's financial performance;
Notifiable and connected transactions	<ul style="list-style-type: none">• How the transaction was introduced to the board;• The rationale and the commercial benefits for the transaction;• The material risks of the transaction;• The factors considered in respect of the transaction, including valuation, discount rates, terminal values, relevant peer comparisons, financing considerations, balance sheet impact, etc.;• Whether there are any dissenting views from the board in respect of the transaction;
Business outlook	<ul style="list-style-type: none">• How the company's purpose, values and strategy are connected to the business model disclosed;• The company's business strategies going forward, e.g. whether there are any short or long term strategic plans for the company; and• The company's plans to cope with an economic downturn or a global pandemic, if appropriate.

Company Culture

Board's role

Define purpose	A healthy culture lies at the heart of strong governance. Company culture can be defined as the values, attitudes and behaviours demonstrated by a company in its operations and relations with its stakeholders. An effective board sets the tone and defines the issuer's purpose, values and strategy, and develops the desired culture to support the issuer's pursuit of success. The board must ensure all these are aligned ²³ .
Continuous focus on culture	Building a company's culture is a process that evolves over time. Regular reflection on the company culture and whether it continues to be relevant in a changing environment can ensure ongoing transparency and adaptation, and to maintain visibility and insight into culture initiatives and differences across the company.
Evaluation of culture	The board should monitor and evaluate the issuer's culture. Whilst there is no single metric to measure culture, the board can take into account both quantitative data and qualitative indicators. In addition, the board may: <ul style="list-style-type: none">• Review the company's decisions and actions to assess whether they are consistent with the desired culture;• Undertake staff and stakeholders engagements; and• Make reference to complaints received, disclosures by whistleblowers, staff turnover rate and code of conduct/regulatory breaches for potential areas of concerns.
Identify weaknesses	The board should pay attention to hints of potential cultural weaknesses, such as a high rate of staff turnover and a low level of communication/engagement and a lack of transparency within the issuer. The board should be ready to challenge misalignment with values.
Rule compliance	The board must embed a robust culture of compliance to ensure Rule and regulatory compliance.

Role of senior and middle management

The senior management sets the example and conveys the board's messages and desired culture to the middle management. The middle management can, if engaged effectively and at an early stage, help to communicate clear directions from the senior management (including the company's culture and any changes) to their direct reports. Issuers should provide relevant training sessions (e.g. management skills) to the middle managers to help them to perform their role.



²³ Principle A.1 and CP A.1.1.

Alignment of culture with values, etc.

There is no “one-size-fits-all” when it comes to culture. What matters is that the culture is appropriate for the context in which the issuers are operating and that there is alignment between the purpose, values, strategy and business model(s). In this respect, issuers are urged to adopt: (a) tone from the top, (b) accountability, (c) effective communication and challenge, and (d) appropriate incentive scheme²⁴.

Tone from the top – lead by example	<p>The directors should be required to understand the company’s culture, and as the leadership of the company, they play an important role in fostering and overseeing the culture, and making sure the desired culture is reflected in the company’s strategy, business model(s) and operating practices, as well as the approach to risks (including ESG risks)²⁵. The chief executive officer, in particular, has the most influence in driving the company’s culture.</p> <p>The board’s behavior and attitudes, including the way the directors communicate with each other, the questions they ask of the management and the way they conduct meetings, can all influence culture. The culture of the board permeates all levels of the company.</p>
Accountability	<p>Accountability needs to be embedded in an issuer’s culture and be subject to review from time to time. At the top, the board should hold the directors, the chief executive officer and the senior executives to account. The board should take appropriate action when it notices any undesired behaviours displayed by these individuals.</p> <p>Employees at all levels are to be held accountable for their actions. The board should convey the values and the expected behaviors associated with each value to everyone in the company, e.g. through hosting town halls and developing a code of conduct. This enables staff members to understand the core values of the company’s culture, and what are expected. This also ensures everyone is aligned on how things should be done at the company, and are capable of performing their prescribed roles.</p>

Regular board evaluations²⁶ provide a useful tool in enhancing directors’ accountability and providing valuable feedback for improving board effectiveness, maximising strengths and highlighting areas for further development.

Internal board evaluations, ideally led by an INED (whether in the form of questionnaires and/or interviews), may be conducted to solicit views from the directors on the performance of the board. Senior executives and key stakeholders may also be invited to provide useful feedback. The evaluation is refined each time as appropriate to focus on the progress made in addressing the key issues raised in the previous evaluation process. The evaluation report will be presented to the board which will collectively discuss the results and the action plan for improvement. Issuers are encouraged to disclose the results of the board evaluation (including issues identified), if conducted, in the corporate governance report for accountability and transparency purposes.

Issuers may also, from time to time, engage external skilled and independent facilitators to conduct board evaluations to supplement internal-led board evaluations.

In addition to disclosing the findings of the board evaluation, issuers may also set out:

- The purpose and areas of the board evaluation;
- How the evaluation is conducted;
- The criteria used for the evaluation; and
- Action plans to be taken, e.g. director’s training.

²⁴ Sections 2 and 3 of the [Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture](#), Financial Stability Board, published in April 2014.

²⁵ Principle A.1 and CP A.1.1.

²⁶ Recommended Best Practice (“RBP”) B.1.5 of the CG Code.

Effective communication and challenge	The board should promote an environment of open communication and effective challenge to encourage a range of views. A sound culture encourages transparency, open dialogues and proactive engagement within the board and between (a) the management and the board, (b) the management and the employees at all levels, and (c) the management with all stakeholders. There needs to be in place mechanisms to facilitate effective communications, bring alternate views to the decision-making process, and provide ongoing training on the company’s desired behaviours ²⁷ .
Incentive scheme	<p>Performance management and talent development encourage and reinforce maintenance of an issuer’s desired culture. It is important to ensure the issuer’s financial and non-financial incentives support the issuer’s culture at all levels.</p> <p>A clear and comprehensive remuneration and performance management supports and drives the desired behaviours and culture, and motivates employees to act in the interest of the greater good of the company. Remuneration and rewards (both long and short term) should be assessed with reference to the expected commitment and responsibilities.</p> <p>Another important element is talent development. Understanding the issuer’s culture is a critical skill set for the employees and should be reflected in their development plans. Training programs should be made available for all employees to develop the required competencies, and more broadly, the elements supporting a sound culture. The nomination committee should take a pro-active role in talent management.</p>

Questions for the board

To assist boards to consider the issue of alignment, we suggest the following list of self-check questions:

Company culture

Are the directors discussing culture at board meetings? Is alignment of strategy, values and behaviours a topic discussed by the board regularly?

Implementation

Are the relevant functional teams (e.g. internal audit, human resources, and compliance and risk) adequately empowered and resourced to embed values and assess culture effectively? Have they worked collaboratively and reported to the board regularly to help the board draw insights into culture?

Measures and channels

What are the measures and channels in place for the board to communicate clearly the desired culture and expected behaviours to staff members? Where a code of conduct is developed, whether it is up-to-date and is adequately communicated and understood by all employees?

Human resources processes

How are the company’s values and culture (including expected behaviours) embedded in the human resources processes and policies?

Remuneration

Are the mechanisms for determining remuneration transparent and objective?

Evaluations

Whether board evaluations are being conducted, their frequency and whether a summary of the evaluations (e.g. the matters set out under the heading “Accountability” on page 10 of the Guide) have been disclosed?

Accountability

Does the board hold the responsible individuals, committees or functional teams to account where misalignment is observed?

Training

Has the company provided training to its directors and employees to ensure their behaviours are aligned with and reflect the company’s values?

Incentives

Do the company’s financial and non-financial incentives support the desired culture? Has the company included behavioural objectives and performance in leadership and employee appraisals?

Stakeholder forum

Is there a forum for stakeholders, including employees, to share ideas, feedback and concerns? Has the board taken these into consideration?

²⁷ CP B.1.4.

Scope of disclosure

Stakeholders would expect disclosures on culture to be precise and succinct (in general, should be no more than one page), covering the following issues:

- The vision, values and strategy of the issuer, alongside its culture, and how all these affect the business model, the purpose and the board evaluation;
- The success measurements of the issuer (e.g. key performance indicators in terms of revenue growth, profit margins, return on equity, and market share), and how its desired culture affects or contributes to the organisation's performance;
- The measures used for assessing and monitoring culture (e.g. specific indicators, such as staff turnover rate, whistleblowing data, employee surveys, breaches of code of conduct, and regulatory breaches);
- The measures in place to ensure that the desired culture and expected behaviours are clearly communicated to all employees, e.g. through hosting town halls and developing a code of conduct;
- The forum(s) available for sharing ideas and concerns on any misconduct or misalignment identified, and how they are being dealt with;
- The company's financial and non-financial incentives which support the desired culture; and
- Summary of board evaluations, if any.



Whistleblowing and Anti-corruption

Anti-corruption and whistleblowing are core to establishing a healthy corporate culture and promoting high ethical standards within issuers.

	Whistleblowing Policy	Anti-corruption Policy
Purpose of the policy	Issuers should establish a whistleblowing policy for employees and those who deal with the issuer (e.g. customers and suppliers) to voice concerns, in confidence and anonymity, with the audit committee (or a designated committee comprising a majority of INEDs) about possible improprieties in matters related to the issuer ²⁸ . An effective whistleblowing system can help detect and deter misconduct or malpractice in an issuer.	Issuers should have in place a clear anti-corruption policy that supports anti-corruption laws and regulations, and to promote an anti-corruption culture within the issuers ³⁰ .
Scope of the policy	<ul style="list-style-type: none"> • Types of breaches and conduct issues to which the policy applies, with examples of the major and minor misconduct²⁹, and the level of substantiation that may justify or warrant reporting. • Personnel to which the policy applies (including implicated parties and the reporting parties). This should cover employees at all levels and other stakeholders who might be victims of staff misconduct, including business counterparts (e.g. suppliers). • Relevant committee/department/personnel responsible for the day-to-day implementation and oversight of the policy, reviewing and investigation of reports, and consideration and approval of changes to the policy. 	<ul style="list-style-type: none"> • Types of breaches and conduct issues to which the policy applies. • Personnel to which the policy applies. This should cover employees at all levels, external parties doing business with the issuer and those acting in an agency or fiduciary capacity on behalf of the issuer (e.g. agents, consultants and contractors).

28 CP D.2.6.

29 For example, failure to comply with legal or regulatory requirements, malpractice, impropriety or fraud relating to internal controls, accounting, auditing and financial matters, danger to the health and safety of any individual, bribery or corruption, and/or deliberate concealment of any of the above.

30 CP D.2.7 and paragraph 3.1 of the [Integrity and Corruption Prevention Guide on Managing Relationship with Public Servants](#) published by the ICAC (“[ICAC Corruption Prevention Guide](#)”).

	Whistleblowing Policy	Anti-corruption Policy
<p>What may be included in the policy</p>	<p>Statement of intent/pledge</p> <ul style="list-style-type: none"> A statement about the issuer’s commitment to high probity standards and ethical business practices, and encouraging reporting of concerns and actual or suspected misconduct or malpractice by any staff and/or external parties in any matter related to the issuer; <p>Reporting channels</p> <ul style="list-style-type: none"> Establishment of appropriate reporting channels with relevant mandates (as reports may be made against staff at different levels), and a description at the different means for making reports and the ways to handle anonymous reports; <p>Protection against retaliation</p> <ul style="list-style-type: none"> A statement pledging confidentiality, anonymity, timely handling of reports, assurance of fair treatment and protection from retaliation, and the relevant policy and measures³¹; <p>Handling of reports</p> <ul style="list-style-type: none"> A requirement to centrally record all reports and the corresponding follow up actions to ensure accountability; A requirement that an internal inquiry should not jeopardise any future investigation by a law enforcement agency (including the steps to ensure the appropriate handling of suspected criminal offences reported or revealed during the internal enquiry³²), and that a report should be made to the appropriate law enforcement agency once there is reasonable suspicion of a criminal offence; 	<p>Culture</p> <ul style="list-style-type: none"> A requirement to link the anti-corruption policy to the issuer’s desired culture; Integrity, honesty, fairness, impartiality, and ethical business practices should be stated as one of the core values of the issuer³³; <p>Top-level commitment</p> <ul style="list-style-type: none"> An unequivocal statement of top-level commitment to adopt ethical and anti-corruption business practices, high standard of integrity and zero tolerance to corruption; A statement of policy setting out the criminal and civil penalties and the reputational damage that may arise if the issuer is involved in any form of bribery or corruption, money laundering and financing of terrorism, whether in Hong Kong or elsewhere and the requirement to comply with the Prevention of Bribery Ordinance (Cap 201 of the Laws of Hong Kong) (“POBO”), amongst other relevant laws of other countries or regions as appropriate; <p>Conflicts of interest</p> <ul style="list-style-type: none"> Guidelines on handling of conflicts of interest and requiring directors and employees to avoid conflicts of interest in carrying out the issuer’s business and to declare any conflicts of interest as appropriate; <p>Acceptance of advantages</p> <ul style="list-style-type: none"> Restrictions on the acceptance of advantages from persons having business dealings with the issuer where no undue favour is involved; <p>Customer due diligence measures</p> <ul style="list-style-type: none"> A requirement to include proper customer due diligence and record-keeping measures, policies or procedures taking into account factors including products and services offered, types of customers and geographical locations involved³⁴;

31 For example, persons who victimise or retaliate against whistleblowers who have genuinely raised concerns will be subject to disciplinary actions.

32 For example, avoiding any actions which may alert the perpetrator, immediately preserve all potential evidence.

33 Paragraph 3.2.1(a) of the ICAC Corruption Prevention Guide.

34 Paragraph 1.24 and Chapter 4 of the [Guideline on Anti-Money Laundering and Counter-Financing of Terrorism](#), published by the SFC in September 2021.

	Whistleblowing Policy	Anti-corruption Policy
<p>What may be included in the policy</p>	<p>Consequence of false reports</p> <ul style="list-style-type: none"> • A policy against knowingly/irresponsibly making false allegations or malicious allegations and its consequence; <p>Disclosure of policy</p> <ul style="list-style-type: none"> • A requirement to disclose the policy (or its summary) on the company’s websites and the reporting channels; and <p>Periodic Review</p> <ul style="list-style-type: none"> • A requirement to review the whistleblowing mechanism periodically to improve its effectiveness and employee confidence in the process and to encourage a “speak up” culture across the issuer. 	<p>Breaches of the policy</p> <ul style="list-style-type: none"> • A requirement to report breaches of the policy to the appropriate person or body within the issuer, and to bring to the board’s attention material incidents relating to breaches of the policy; • Disciplinary measures in place, and appropriate disciplinary action or referral to law enforcement agencies for serious breaches³⁵ ; <p>Integrity requirement for issuer’s personnel</p> <ul style="list-style-type: none"> • Integrity and conduct requirements expected of the issuer’s personnel, and the appropriate policies or controls in place to manage risks and maintain records when offering or accepting gifts, entertainment, sponsorships, travel & accommodation or other advantages, or when engaging in charitable donations, political expenditure or recruitment; <p>Anti-corruption programme</p> <ul style="list-style-type: none"> • A description of the issuer’s anti-corruption programme, including the mechanism for the identification and assessment of corruption risks and the controls in place to mitigate the risks³⁶; • Proper training (including integrity training) for the management and the employees likely to be exposed to risks of bribery and corruption, money laundering and financing of terrorism or non-compliance under the POBO, and how they recognise and deal with them³⁷; <p>Disclosure of policy</p> <ul style="list-style-type: none"> • A requirement to disclose the anti-corruption policy (or its summary) on the company’s websites; and <p>Periodic review</p> <ul style="list-style-type: none"> • A requirement to review the policy periodically to ensure that it is operating effectively and whether any changes to the policy are required.

35 Paragraph 3.2.1(d) of the Integrity and Corruption Prevention Guide on Managing Relationship with Public Servants, published by the ICAC.

36 For example, proper training for the management and employees likely to be exposed to the risks of bribery, corruption, money laundering and financing of terrorism, and how they recognise and deal with them.

37 The Hong Kong Business Ethics Development Centre of the ICAC offers training services on anti-bribery law and business ethics to business companies while the Corruption Prevention Advisory Service of the ICAC provides training to managerial, supervisory or compliance/audit staff on corruption prevention measures and controls.

Issuers are expected to be familiar with the anti-corruption laws and regulations³⁸ and related guidance issued by the Securities and Futures Commission (“SFC”) and the Independent Commission Against Corruption (“ICAC”), and any laws and regulations applicable to the issuer’s businesses³⁹.

Issuers may approach the ICAC for a free, tailor-made and confidential corruption prevention advisory service in shaping and formulating their whistleblowing and anti-corruption policies⁴⁰, or may make reference to “Anti-Corruption Programme – A Guide for Listed Companies”, “Guidance on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations)”, “Integrity and Corruption Prevention Guide on Managing Relationship with Public Servants” and other guidance published by the SFC⁴¹ and the ICAC⁴² and other applicable international standards (including the ISO 37001 “Anti-bribery Management Systems” and “The FATF Recommendations” for a comprehensive framework of measures in order to combat money laundering and terrorist financing).



38 Including the POBO, Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615 of the Laws of Hong Kong).

39 The SFC included the legal and regulatory requirements as well as other publications and information sources regarding AML/CFT, available at: <https://www.sfc.hk/web/EN/rules-and-standards/anti-money-laundering-and-counter-terrorist-financing/> and paragraph 2.4 of the Code of Conduct for Persons Licensed by or Registered with the SFC.

40 <https://cpas.icac.hk/>

41 See footnote 39.

42 Best Practice Checklists illustrating the common corruption loopholes in the daily operations and recommending preventive safeguards.

Board Committees' Role and Functions

The board is responsible for performing the corporate governance duties. It may delegate the responsibilities to board committees with specific written terms of reference to enable such committees to discharge their duties properly⁴³.

The core committees of the board are the nomination, audit and remuneration committees⁴⁴. The board may also set up a corporate governance committee to review the corporate governance policy and the practices of an issuer⁴⁵.

The chair of the board and each of the board committees are expected to be present at annual general meetings to address shareholders' queries and receive constructive feedback on how the company is run⁴⁶. They should make use of electronic means to participate in annual general meetings if physical attendance is not feasible⁴⁷. The issuer should explain with genuine and good reasons when the chair of the board or board committees fail to attend annual general meetings⁴⁸.

Nomination committee

Composition	The nomination committee is chaired by the chairman of the board or an INED and comprises a majority of INEDs ⁴⁹ .
Board recruitment	The nomination committee's key role is board recruitment. It must evaluate and assess the optimal composition of the board, taking into account the issuer's culture, strategies and objectives ⁵⁰ . For the appointment of INEDs, the nomination committee may consider approaching recruitment agencies and obtaining referrals from business acquaintances and peer industry circles ⁵¹ .
List of skills	To focus the search effort, the issuer should develop a list of desirable skills, perspectives and experience at the outset of the selection process for a new director. Areas of expertise and skills might include accounting and auditing, compliance, ethics, internal control, legal, risk management, technology know-how, people management, business strategy and investment.
Board performance	The nomination committee also meets to consider the performance of the board ⁵² . The committee may look at benchmarking how the issuer's board measures up against other peer issuers' boards in Hong Kong.
Board refreshment	The nomination committee should be mindful of the need to refresh the board regularly to avoid entrenchment and to attract fresh thinking. It must also consider succession planning to ensure the long term success of the issuer ⁵³ . A robust long-term succession plan considers the skills that the board currently has and those it is likely to need in the future. It also asks what professional and personal attributes may be missing from the boardroom.

43 Principle A.2.

44 Main Board Rules 3.21 to 3.27A / GEM Rules 5.28 to 5.36A.

45 Principle A.2. See Main Board Rule 8A.30 which requires every issuer with a WVR structure to establish a corporate governance committee.

46 CP F.2.2.

47 Subject always to the issuer's constitutional documents and the law and regulations of its place of incorporation. See Note 1 to paragraph B(c) of Part 1 MDR of the CG Code and Main Board Rule 13.39(5A) / GEM Rule 17.47(5A).

48 For example, going on a business trip is not considered to be a good reason for not attending an annual general meeting.

49 Main Board Rule 3.27A / GEM Rule 5.36A.

50 Principle B.3.

51 CP B.3.3.

52 RBP B.1.5.

53 Principle B.3.

Nomination policy	<p>There should be an established policy on how potential directors can be identified⁵⁴. The selection process should be transparent and fair⁵⁵. Issuers are encouraged to select from a broad range of candidates who are outside the board’s circle of contacts, and in accordance with the issuer’s diversity policy. We suggest that issuers consider the following in formulating the policy:</p> <ul style="list-style-type: none"> • State the objectives of the nomination policy. This should include ensuring the board has a balance of skills, experience and diversity of perspectives relevant to the issuer’s business⁵⁶; • Emphasise the ultimate responsibility for selection and appointment of directors rests with the entire board; • Set out the procedure and criteria for the selection, appointment and reappointment of directors⁵⁷. This should include the potential contributions a candidate can bring to the board in terms of qualifications, skills, experience, independence and diversity of perspectives; • Board succession planning considerations and periodic reviews of the plan; • The way in which the issuer will disclose its nomination policy and how the progress made towards achieving the objectives set out in the policy is disclosed periodically (e.g. in the corporate governance report); and • A formal process for monitoring and reviewing the nomination policy to ensure that it remains relevant to the issuer’s needs and reflects both current regulatory requirements and good corporate governance practice.
--------------------------	---

Audit committee

Composition	The audit committee is chaired by an INED and comprises a majority of INEDs ⁵⁸ .
Engagement of external auditors	The audit committee is responsible for making recommendations to the board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal ⁵⁹ .
Integrity of financial statements	The audit committee has the important functions of monitoring the integrity of the issuer’s financial statements, annual and interim reports and accounts, risk management and internal control systems as well as maintaining an appropriate relationship with the issuer’s external auditors. The audit committee should stay focused on financial reporting integrity as part of its core oversight responsibilities ⁶⁰ .
Monitor internal audit function	The committee is charged with the responsibility to ensure that the internal audit function (where such function exists) is adequately resourced and has appropriate standing within the issuer, and to review and monitor its effectiveness ⁶¹ . Adequately resourced means that the function is staffed by people with appropriate qualifications, experience, integrity and independence of mind.
Work with management	The audit committee should have the full cooperation of the management and be supplied with sufficient information and reasonable resources to carry out its role and functions in accordance with its terms of reference. The audit committee must take an active interest and be proactive in understanding the affairs of the issuer and investigate where there are red flags. The management should liaise with the audit committee and ensure that they hold thorough discussions with the auditors at least twice a year ⁶² . They should also explain the judgments of key assumptions underlying critical accounting estimates. This is because each judgment or estimate can significantly impact the key balances in an issuer’s financial statements.

54 CP B.3.4.

55 Principle B.2.

56 Principle B.3.

57 Paragraph E.(d)(iii) of the MDR.

58 Main Board Rule 3.21 / GEM Rule 5.28.

59 CP D.3.3.

60 Principle D.3, CP D.3.3(d) and (e).

61 Paragraph E.(d)(i) of the MDR and CP D.3.3(i).

62 CP D.3.3(e)(i).

Disagreement with auditors	The role of the external auditors is important to ensure the integrity of the issuer’s financial reporting and where the board disagrees with the audit committee’s views on the selection, appointment, resignation or dismissal of the external auditors, the CG Code requires the issuer to explain this disagreement in the corporate governance report ⁶³ .
Disclosure in annual report	<p>The annual report should describe the work of an audit committee to discharge its responsibilities, including:</p> <ul style="list-style-type: none"> • Financial reporting⁶⁴ - (a) how the audit committee monitors and assesses the integrity of the financial statements, formal announcements and regulatory information in relation to the issuer’s financial performance as well as significant accounting judgments; (b) whether careful considerations are made to ensure transparency and consistency have been applied throughout the financial reporting disclosures; and (c) the significant issues which the audit committee considered relating to the financial statements, and how these issues were addressed; • External auditor⁶⁵ - (a) how the audit committee reviews and monitors the relationship with the external auditor and oversees its appointment, tenure, rotation, remuneration, independence and engagement for non-audit services, and whether the audit committee has challenged and assessed the effectiveness of the external audit process; (b) where the board disagrees with the audit committee’s views on the selection, appointment, resignation or dismissal of external auditors, a statement from the audit committee explaining its recommendation and the reasons why the board has taken a different position; • Internal audit⁶⁶ - the process overseeing the issuer’s internal audit function and the assessment of the overall governance, risk management and internal control framework. Where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and • Risk management and internal controls⁶⁷ - the effectiveness of financial reporting, whilst ensuring that the management has appropriate risk management and internal controls over the process.
Terms of reference ⁶⁸	<p>The following are suggestions on how compliance with the code provision may be achieved⁶⁹:</p> <ul style="list-style-type: none"> • The audit committee is recommended to consider establishing procedure to review and monitor the independence of the external auditors as follows: <ul style="list-style-type: none"> - Consider all relationships between the issuer and the audit firm (including non-audit services); - Obtain from the audit firm annually, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those for rotation of audit partners and staff; and - Meet with the auditor, at least annually, in the absence of management, to discuss matters relating to its audit fees, any issues arising from the audit and any other matters the auditor may wish to raise. • The audit committee may consider agreeing with the board the issuer’s policies on hiring employees or former employees of the external auditors and monitoring the application of these policies. The audit committee should then be in a position to consider whether there has been or appears to be any impairment of the auditor’s judgement or independence for the audit.

63 CP D.3.5

64 Paragraph E.(d)(i) of MDR.

65 Principle D.3 and CPs D.3.5 and D.3.7.

66 Paragraph E.(d)(i) of MDR and CP D.3.3(i).

67 Paragraph E.(d)(i) of MDR and CP D.3.3(f).

68 CP D.3.3.

69 For further guidance, issuers may refer to the “Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence” issued by the Technical Committee of the International Organisation of Securities Commissions in October 2002 and “Guidance for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors” published by the Financial Reporting Council in December 2021. Issuers may also adopt the terms of reference in those guides, or any other comparable terms of reference for establishing an audit committee.

Terms of reference	<ul style="list-style-type: none"> • The audit committee should ensure that an external auditor’s provision of non-audit services does not impair its independence or objectivity. When assessing the external auditor’s independence or objectivity in relation to non-audit services, the audit committee is encouraged to consider: <ul style="list-style-type: none"> - Whether the skills and experience of the audit firm make it a suitable supplier of non-audit services; - Whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit because the external auditor provides non-audit services; - The nature of the non-audit services, the related fee levels and fee levels individually and in total relative to the audit firm; and - The criteria for the compensation of the individuals performing the audit.
---------------------------	--

Remuneration committee

Composition	The remuneration committee is chaired by an INED and comprises a majority of INEDs ⁷⁰ .
Advise on remuneration	The main role of the remuneration committee is to assist and advise the board on the remuneration of the board and the senior management ⁷¹ . In so doing, the remuneration committee should have a formulated strategy and policy on all directors, as well as a set of formal and transparent procedures to implement the policy. The aim is to motivate, retain and attract the best talent for the issuer in order to maximise shareholder value.
Factors for consideration	<p>The remuneration committee should consider all aspects of remuneration, including⁷²:</p> <ul style="list-style-type: none"> • Salaries paid by comparable issuers, time commitment and responsibilities and employment conditions in the group; • Appointment and termination terms for the directors and the senior management to ensure they are fair; • Compensation arrangements relating to dismissal or removal of the directors for misconduct to ensure they are reasonable and appropriate; • Company culture and other non-financial key performance indicators, such as climate related performance indicators; and • Whether the remuneration package for an INED may affect the INED’s objectivity and independence⁷³.
Disagreement with board⁷⁴	If the board resolves to approve any remuneration or compensation arrangements with which the remuneration committee disagrees, the board is encouraged to disclose the reasons for its resolution in the next corporate governance report.

Corporate governance committee

Role of the committee	Whilst the board is responsible for performing the corporate governance duties, it may also set up a corporate governance committee to be responsible for the continuous review of the corporate governance policy and the practices of the issuer and to ensure the issuer is up to date with the latest practices ⁷⁵ . The committee may also deal with any specific dilemmas that appear.
Functions of the committee	A committee dedicated to this role helps ensure an issuer devotes more attention, time and resources to compliance issues. This is important because legal, regulatory and corporate governance standards: (a) change frequently as they develop, follow new business practices or respond to significant market failures; and (b) are not “one size fits all”. Issuers need to tailor their compliance with corporate governance standards to fit their own circumstances.

70 Main Board Rule 3.25 / GEM Rule 5.34.

71 CP E.1.2.

72 CP E.1.2.

73 RBP E.1.9.

74 RBP E.1.6.

75 Paragraph E.(d)(v) of the MDR and Principle A.2.

Board Diversity and Policy

A high performance board should have a balance of skills, experience and diversity of perspectives, aligned with the issuer's businesses, strategy and objectives, and which is in the best position to deal with the key issues that the issuer encounters⁷⁶. Diversity is an important driver of a board's effectiveness and enables better decisions to be made. Issuers should ensure that different perspectives are regularly elicited and integrated into the board's work.

There should be transparency in the consideration of diversity during the nomination process of directors. A nomination committee comprising members of diverse backgrounds may help strengthen the process.

Gender diversity

Gender diversity is an issue of particular importance to many stakeholders. The statistics on gender diversity can be more easily obtained than for other factors, such as cultural, educational background and professional experience.

A growing number of studies have shown that gender and other aspects of diversity enable the board to better understand their diverse customers' and stakeholders' needs and are positively associated with the issuer's financial performance, more effective board decision making and better risk management.

Diversity is now not considered to be achieved for a single gender board⁷⁷. Issuers should appoint a director of a different gender who genuinely possesses the necessary skills, experience and caliber appropriate to the issuer's business.

Diversity policy

The Rules require every issuer to have a diversity policy which should include measurable objectives that it has set for implementing such policy⁷⁸. The board should also monitor the implementation of the policy and keep it under review annually to ensure it remains fit for the purpose⁷⁹. Further, issuers should disclose the policy or a summary of it in the corporate governance report and the progress on achieving the measurable objectives⁸⁰. In particular, for the workforce level, issuers should disclose: (i) gender ratios in the workforce by categories of employees⁸¹, (ii) any plans or measurable objectives the issuers have set for achieving gender diversity, and (iii) any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant⁸².

76 Principle B.1.

77 Main Board Rule 13.92 /GEM Rule 17.104 and Note to MB Rule 13.92/GEM Rule 17.104.

78 Main Board Rule 13.92 /GEM Rule 17.104 and Note to MB Rule 13.92/GEM Rule 17.104.

79 CP B.1.3.

80 Main Board Rule 13.92 /GEM Rule 17.104.

81 For example, an issuer may refer to employee categories by level (senior management, middle management and rank and file) and/or by function (executive, technical, administrative and production), or select other employee categories that align with its approach.

82 Paragraph J(c) of the MDR.

Issuers should formulate their diversity policy based on their own circumstances. They are encouraged to consider the following guidance:

- Articulate the benefits of diversity, including gender diversity, and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent;
- Express the issuer's commitment to diversity at all levels, including gender, age, cultural and educational background, and professional experience;
- Assess the issuer's diversity profile annually, including the gender balance of the directors and the senior management and their direct reports, and its progress on achieving its diversity objectives;
- Ensure that the recruitment and selection practices at all levels (from the board downwards) are appropriately structured so that a diverse range of candidates are considered; and
- State whether the issuer has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions.



Board skills matrix

A board skills matrix is a table that displays the board members' proficiency in specified skills, experience, knowledge and diversity of perspectives. It helps the board to align skills with the issuer's strategic direction, assess the current mix of competencies and diversity on the board and identify any gaps that may exist.

The matrix also shows the directors' attributes and competencies and how each director contributes to a critical function of the board and the issuer's succession planning. Developing and disclosing such a matrix is a good practice as it demonstrates a transparent process for the board's selection and appointment of directors.

We understand that the strategy and the objectives of each board are different and so are the metrics or criteria for a board skills matrix. Whilst it is not possible to have a "one-size-fits-all" list of criteria, it would typically include industry or professional knowledge and experience, gender, technical skills and management experience.

When formulating metrics and criteria, issuers are encouraged to make reference to the following:

- Collect data, and where appropriate and possible, wider diversity statistics.
- Consider the implications on the collection and retention of personal data, including the Personal Data (Privacy) Ordinance (Cap 486 of the Laws of Hong Kong), and seek legal advice as necessary.
- Develop a plan for gauging the progress on diversity and analyse the data collected to assess the effectiveness of the metrics.
- Set baseline measures for tracking progress and benchmarking against future data gathering. Benchmarks can include comparables with boards in similar industries.
- Keep the metrics/criteria under review from time to time to ensure that they are up-to-date with the company's business developments and strategic plans.

Risk Management and Internal Control

Why should issuers focus on risk management?

An effective risk management and internal control system not only ensures regulatory compliance, it is also a business imperative.

Board's role

Evaluation of risks	The board should evaluate and determine the nature and the extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring the issuer establishes and maintains appropriate and effect risk management and internal control systems. Risks include material risks relating to ESG ⁸³ .
Risk identification and control	When the board discusses the issuer's long term strategic objectives, it should at the same time deal with internal control issues, including the issuer's risk appetite, risk and return trade-offs, risk management and internal control systems.
Risk culture	The board should lead in shaping and developing the issuer's risk culture, setting the tone at the top ⁸⁴ .

Management's role

The management is responsible for implementing the board's risk management policy and procedures. It also designs, implements and monitors the risk management and internal control systems and confirms to the board on the effectiveness of the systems⁸⁵.

Risk management policy and procedures

There should be a formally documented risk management policy and procedures in place which should be endorsed by the senior management and the board.

There should also be an audit plan which reviews the internal control systems that deal with the identified risks (including ESG risks).

Testing of the systems' effectiveness is essential and should include performing walkthroughs for notifiable and connected transactions to understand and document the process flow of transactions and the controls which the management has put in place, the strength of their design, the completeness of the process, and any controls that prevent or detect fraud and errors.

Any weaknesses identified should be fixed within the timeline specified⁸⁶.

83 Principle D.2, CPs D.2.2 and D.2.3.

84 Principle D.2.

85 Principle D.2. and RBP D.2.8.

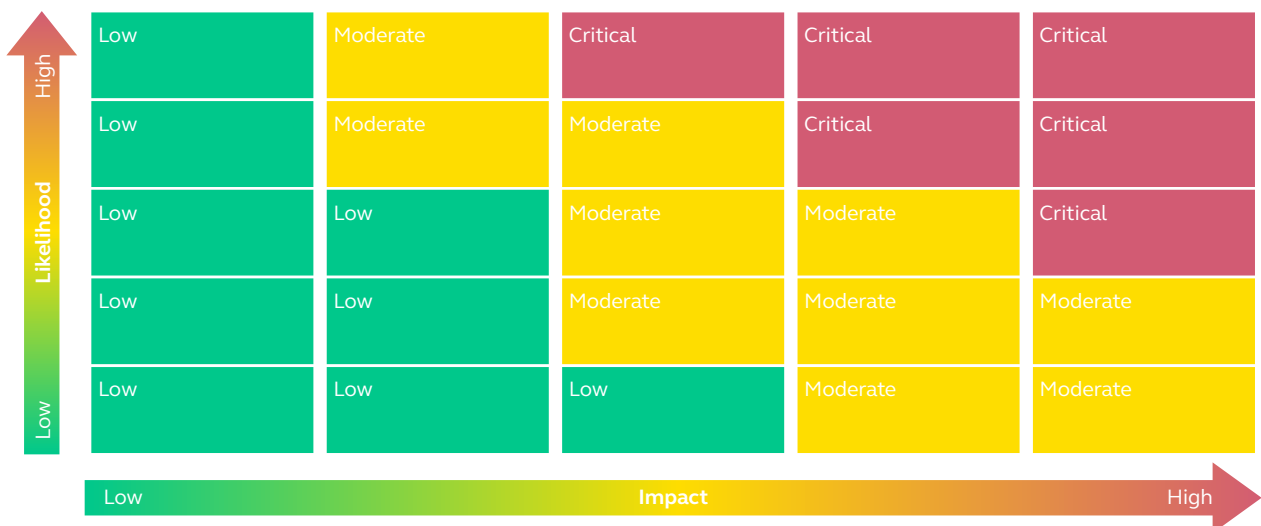
86 CP D.2.3.

Risk identification

The risks that each issuer encounters will be different, depending on the scale, complexity and geographical locations of its business operations. In order to help issuers to better understand the possible steps to take to identify risks (including ESG risks), set out below are some suggestions:

- Analyse the source of potential internal and external risks that may arise in relation to the issuer’s business, e.g. cyber security and labour risks;
- Prioritise the potential risks through discussions within the issuer’s management;
- Create a risk register which is populated with key strategic risks, i.e. risks that may prevent the issuer from achieving its strategic objectives. The risk register should be a record of all the risks that the issuer faces and it should be reviewed and updated regularly, at least annually; and
- Plot the risks into a matrix in the form of a “heat map”, as illustrated in the diagram below. In the “heat map”, there should be a list of the issuer’s top 10 to 20 risks based on which the board can consider and review the internal control systems to mitigate such risks.

Risk Assessment Heat Map



Appropriate approach to risks

Doing business always involves risks. There needs to be a right balance between excessive focus on eliminating the risks and paying insufficient attention to the risks. The latter includes treating risk management merely as a compliance issue.

Issuers should make adequate disclosures on the board’s annual review of the issuer’s risk management and internal control (including ESG risks) in the corporate governance report⁸⁷.

87 Paragraph H of the MDR and CP D.2.1.

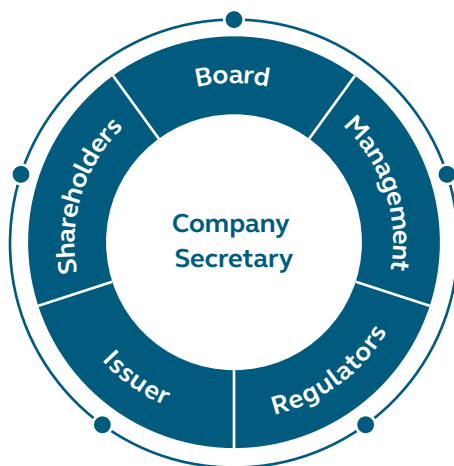
Company Secretary

Role and functions

Company secretaries are heavily relied upon as key advisers to the boards on corporate governance and other regulatory compliance matters⁸⁸. Their wide range of functions include:

- Helping the issuer develop and maintain a sound and effective corporate governance framework, in particular, a set of risk management and internal control system to ensure regulatory compliance, and that good corporate governance practices and culture are upheld by the company;
- Keeping abreast of the developments in laws, rules and regulations that may affect the issuers' business and operations, and briefing the board on these developments;
- Taking a proactive role in anticipating issues and providing advice to the Board in accordance with the laws, rules and regulations;
- Ensuring that the board receives continuous training on regulatory developments that are relevant to their business developments and status as a listed company;
- Providing compliance advice to the board and senior management in the decision-making process, and ensuring their compliance; and
- Helping the board to formulate and push forward a robust compliance culture to meet both regulatory and investor expectations and working with the board to formulate the company's vision, values and strategy, ensuring these align with the company's culture and assisting the board to prepare the disclosures on culture⁸⁹.

Company secretaries have also been regarded as a crucial conduit of communications between:



- **The board and the management** - on the one hand, the company secretary updates the chief executive officer and the board (including INEDs) on the information provided by the senior management and on the other hand, the company secretary conveys the board's decisions to the senior management;
- **The issuer and its shareholders** - the company secretary ensures a good channel of communication through emails or at the annual general meetings; and
- **The issuer and the regulators** - when the issuer receives enquiries from a regulator, e.g. the Exchange, the company secretary should work with the board and the senior management and assist in responding to the regulator in a timely manner.

⁸⁸ Principle C.6.

⁸⁹ "Securities and Regulation Guidance: Board Culture – The Trend Towards Ever Greater Board Accountability", The Hong Kong Chartered Governance Institute published in September 2021.

Selecting the company secretary

Company secretaries should possess technical knowledge, specialised skills (including board skill set, encompassing company laws, accounting and finance, governance, strategy, tax obligations and company secretarial matters), and experience in corporate governance, internal control and regulatory compliance. They should also have acquired relevant qualifications and competence necessary to effectively discharge the duties required. Note 1 to Main Board Rule 3.28⁹⁰ sets out a list of academic or professional qualifications acceptable to the Exchange. For further guidance on the experience and qualifications requirements expected of a company secretary, please refer to Guidance Letter [HKEX-GL108-20](#), published by the Exchange in August 2020.

External service provider

If the board engages an outsourced professional or an external service provider as company secretary, it must ensure that such outsourced professional or external service provider has the resources to follow closely with the issuer's daily affairs, such that it can perform its duties properly.

An issuer that engages an external service provider as its company secretary should consider the following factors and take appropriate steps to mitigate the potential issues associated with these factors:

- The external service provider may not have day-to-day knowledge of the issuer's affairs;
- There may be time gaps in communication, particularly those that may be time sensitive, e.g. the Exchange' enquiries to the issuer on potentially price sensitive market rumours; and
- The external service provider may be acting as company secretary for a large number of issuers. The issuer needs to consider whether the external service provider would be able to devote sufficient time to the issuer's affairs.

When appointing an external service provider as a company secretary, the issuer should designate a senior executive as a contact person within the issuer, who will work closely with the external service provider⁹¹.

For more guidance on the company secretary's role and functions, and in particular, where an external service provider is engaged as a company secretary of an issuer, please refer to The Hong Kong Chartered Governance Institute⁹² "[Company Secretary Appointment Guidelines for HKICS Members – Good Practice as to the Number of Appointments as 'Named' Company Secretaries of Hong Kong Listed Issuers](#)".

⁹⁰ GEM Rule 5.14.

⁹¹ Paragraph F. of the MDR and CP C.6.1.

⁹² Previously known as "The Hong Kong Institute of Chartered Secretaries".

Corporate Governance of WVR Issuers

Issuers with weighted voting rights (“WVR”) structure are required to comply with additional regulatory requirements and safeguards set out in Chapter 8A of the Rules.

Additional areas include:

- Rights of Non-WVR Shareholders⁹³ to convene an extraordinary general meeting;⁹⁴
- Resolutions requiring voting on a one vote per share basis⁹⁵;
- INEDs are subject to retirement by rotation at least once every three years⁹⁶;
- Establishment of a corporate governance committee⁹⁷;
- Additional reporting requirements (including summary of the work of the corporate governance committee)⁹⁸;
- A requirement to appoint a compliance adviser⁹⁹;
- Compliance with “Communication with Shareholders” of Appendix 14 of the Listing Rules¹⁰⁰; and
- Compulsory training for the directors, the senior management and the company secretary¹⁰¹.

Issuers with WVR structures are a relatively new concept. We will monitor the market developments in this area and may publish further guidance to boards and directors of WVR Issuers.



93 A shareholder of a class of listed shares of an issuer with a WVR structure who is not also a beneficiary of weighted voting rights (Main Board Rule 8A.02).

94 Main Board Rule 8A.23.

95 Main Board Rule 8A.24.

96 Main Board Rule 8A.29.

97 Main Board Rule 8A.30.

98 Main Board Rule 8A.32.

99 Main Board Rule 8A.33.

100 Main Board Rule 8A.35.

101 Main Board Rule 8A.36.

Hong Kong Exchanges and Clearing Limited

8/F, Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

hkexgroup.com | hkex.com.hk

info@hkex.com.hk

T +852 2522 1122

F +852 2295 3106