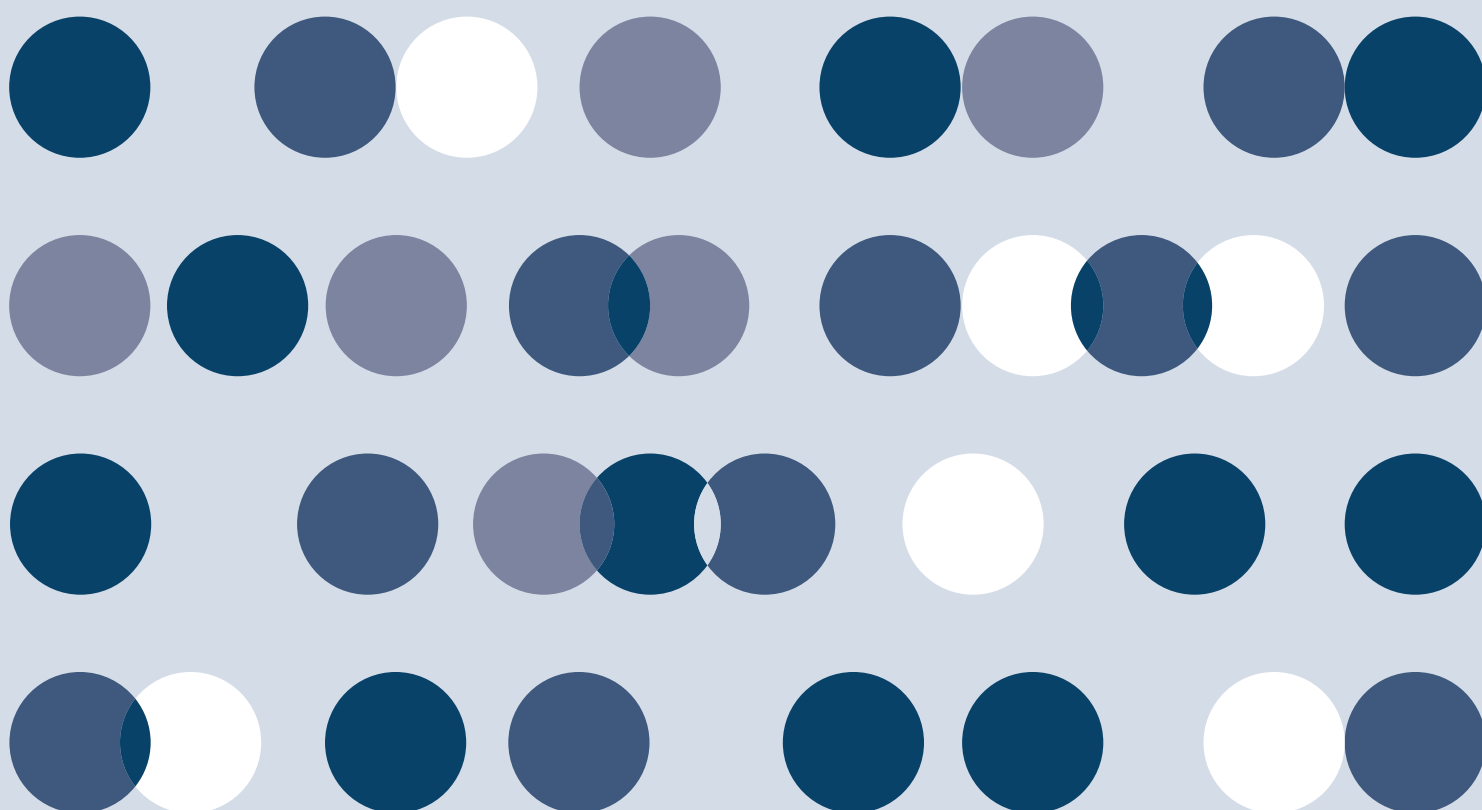


October 2017

ANALYSIS OF CORPORATE GOVERNANCE
PRACTICE DISCLOSURE IN 2016 ANNUAL REPORTS



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EXECUTIVE SUMMARY

1. In November 2015, The Stock Exchange of Hong Kong Limited (“**Exchange**”) published its 2014 Review (“**2014 Review**”) of 1,237 issuers’¹ compliance with the Corporate Governance Code and Corporate Governance Report (“**Code**”).² In 2016, the Exchange also published reviews of the corporate governance disclosures made by issuers with March 2015³ and June 2015 year-ends.⁴ As part of the Exchange’s ongoing efforts to monitor compliance, we completed a review of issuers’ compliance with the Code in 2016 (“**2016 Review**”).
2. The 2016 Review involved analysing the disclosures made by 1,428 issuers⁵ in their 2016 annual reports, covering the financial period from 1 January to 31 December 2016. The 1,428 issuers with a financial year-end date of 31 December 2016, represent approximately 72% of all issuers listed as at 31 December 2016. Large-cap, mid-cap and small-cap groups accounted for 34%, 44% and 22% respectively of the 2016 Review issuers.⁶
3. Consistent with previous reviews, the results of the 2016 Review demonstrate issuers’ high level of compliance with the Code, with nearly all the issuers⁷ complying with 70 or more of the Code Provisions (“**CPs**”).⁸
4. Chapter 2 contains a summary of the results and findings of the 2016 Review.
5. Chapter 3 sets out a number of areas of corporate governance that warrant special mention. These are: (a) nomination committee; (b) independence of independent non-executive directors (“**INEDs**”); (c) board diversity; and (d) risk management and internal control. Chapter 3 also contains a summary of the explanations given by issuers in respect of the five CPs with the lowest compliance rates.
6. The results of the 2016 Review show that most issuers have adopted the new higher level of reporting obligations resulting from the 2016 amendments to the risk management and internal control section of the Code.⁹ However, this is also an area of disclosure that requires improvement (see Chapter 3).

How to explain?

7. The framework for corporate governance disclosure is designed to facilitate communication between the company and its shareholders and potential investors, so that they understand the company’s corporate governance practices. Compliance with

¹ 1,117 Main Board issuers and 120 GEM issuers.

² Appendix 14 of Main Board Listing Rules and Appendix 15 of GEM Listing Rules.

³ A total of 262 Main Board and 56 GEM issuers’ Corporate Governance Reports were reviewed in the March 2015 review.

⁴ A total of 66 Main Board and 15 GEM issuers’ Corporate Governance Reports were reviewed in the June 2015 review.

⁵ 1,271 Main Board issuers and 157 GEM issuers.

⁶ As with the 2014 Review, the 2016 Review defines “large-cap” as issuers with a market capitalisation of greater than HK\$4.2 billion, “mid-cap” as issuers with a market capitalisation greater than HK\$0.7 billion and smaller than or equal to HK\$4.2 billion, and “small-cap” as issuers with a market capitalisation of smaller than or equal to HK\$0.7 billion.

⁷ 99.6% of issuers complied with 70 or more CPs.

⁸ Code Provisions are subject to “comply or explain”, see paragraph 10.

⁹ CP A.5.6 and Section C amendments became effective in 2013 and 2016 respectively, see paragraph 11.

the Code is a good start, but issuers need to go beyond compliance, to ensure that corporate governance is not treated as a “box-ticking” exercise.

8. As we present the results of the 9th review of the issuers’ compliance with the Code, we must give credit to issuers who have produced outstanding reports that contained clear descriptions of their corporate governance performance and practices, and where deviations from the CPs were thoughtfully explained. The considered reasons given in the “comply or explain” process are important, taking into account the purpose of the corporate governance principles. In essence, the Exchange expects that the explanation of any deviation from a CP should be informative and clear, and should:
- Explain the manner in which the company deviates from the CP;
 - Explain the measure(s) taken instead of compliance;
 - Describe the decision-making process; and
 - Give considered reasons.

Key Findings of the 2016 Review compared with 2014 Review

	2016 Review	2014 Review
Compliance with all CPs¹⁰	34%	35%
Compliance with 75 or more CPs	94%	35%
Compliance with 70 or more CPs	100% ¹¹	98%
Level of full compliance with reference to market capitalisation	Large-cap > Mid-cap > Small-cap	Large-cap > Mid-cap > Small-cap
Level of full compliance with reference to Hang Seng Index/ Non-Hang Seng Index Companies	HSI: 40% Non-HSI: 35%	HSI: 38% Non-HSI: 35%
Five CPs with the lowest compliance rates in ascending order	<ul style="list-style-type: none"> i. A.2.1: separation of the roles of chairman and chief executive ii. A.6.7: non-executive directors’ attendance at general iii. E.1.2: Chairman’s attendance at annual general meeting 	<ul style="list-style-type: none"> i. A.2.1 ii. A.6.7 iii. A.4.1

¹⁰ At the 2014 review there were 75 CPs. Since January 2016, there are 78 CPs in Appendix 14.

¹¹ See footnote 7.

	2016 Review	2014 Review
	iv. A.4.1: non-executive directors being appointed for a specific term, subject to re-election v. A.5.1: Establishment of a nomination committee	iv. E.1.2 v. A.5.1
Disclosed compliance rate of Recommended Best Practice (“RBPs”)	8%	12%
Disclosed having an internal audit function¹²	97%	47%

¹² See paragraph 29.

CHAPTER 1: INTRODUCTION

Background

9. One of the roles of the Exchange is to provide a sound and effective corporate governance framework. From a market regulator's perspective, good corporate governance reduces information asymmetry which in turn engenders investors' trust and confidence. The obligatory disclosure under the framework guide issuers to report on their corporate governance performance and practice so as to ensure the interests of investors are protected and maintain their confidences of our market.
10. To this end, the Exchange introduced the Code in 2005, which sets out the principles of good corporate governance, and two levels of recommendations: CPs and RBPs. Issuers are required to state whether they have complied with the CPs in their interim and annual reports, and explain if there is any deviation. The RBPs are for guidance only.
11. The Code and related Listing Rules have been subject to substantive amendments in recent years. In particular,
 - (a) In December 2010, the Exchange conducted an extensive review of the Code and proposed a substantial number of amendments to the Code and associated Rules. The revised Code¹³ became effective on 1 April 2012. Issuers have responded positively with the increase of the number of CPs from 45 to 75.
 - (b) In December 2012, the Exchange introduced CP A.5.6 (on board diversity) which became effective on 1 September 2013. Under the CP, the nomination committee (or the board) should have a policy on board diversity, and should disclose the policy or a summary of the policy in the Corporate Governance Report. It also requires the policy to be disclosed together with any measurable objectives that the nomination committee (or the board) has set for implementing the policy, and progress on achieving those objectives.¹⁴
 - (c) In June 2014, the Exchange consulted on reviewing the internal control section of the Code. The amendments to the Code became effective on 1 January 2016, which resulted in the upgrade of three RBPs to CPs (i.e. from voluntary disclosure to "comply or explain"). The upgraded requirements were that there should be:
 - (i) CP C 2.3: specific considerations in the annual review of the issuers' risk management and internal control systems;
 - (ii) CP C 2.4: disclosure of a narrative statement on how the issuer has complied with the risk management and internal control CPs during the reporting period and matters relating to the review process;
 - (iii) CP C 2.5: the requirement for issuers to have an internal audit function; and

¹³ Nine new CPs were introduced and 21 RBPs were upgraded to CPs. One CP (*issuers should establish a remuneration committee with specific terms of reference*) and one RBP (*an issuer should appoint independent non-executive directors representing at least one third of the board*) were modified and upgraded to Rules.

¹⁴ Mandatory Disclosure Requirement Section L.(d)(ii).

- (iv) RBP C 2.6 was also introduced to encourage the board to disclose in their Corporate Governance Report that it has received assurance from management on the effectiveness of the issuers' risk management and internal control systems.

Scope of Review

- 12. We examined the annual reports of 1,428 issuers with a financial year-end at 31 December 2016, which represent approximately 72% of all issuers listed as at 31 December 2016.
- 13. The period of the 2016 Review was from 1 January to 31 December 2016. We analysed the statistics in the following areas:
 - (a) compliance rate of CPs; and
 - (b) disclosure in relation to risk management and internal control.
- 14. For the five CPs with the lowest compliance rates, we set out a summary of the explanations given.
- 15. A summary of statistics regarding the compliance with each CP forms **Appendix I** and a summary of past reviews forms **Appendix II**.

CHAPTER 2: RESULTS AND FINDINGS

16. In this chapter, we will look at:

- (a) compliance rate of the CPs from the following perspectives:
- overall;
 - market capitalisation;
 - HSI versus non-HSI companies; and
- (b) disclosure in relation to risk management and internal control systems.

A. Compliance Rate of CPs

Overall

17. 34% of issuers reported full compliance with all CPs which is a drop of 1% from the 2014 Review. However, it should be noted that since the 2014 Review, the total number of CPs increased from 75 to 78.
18. 94% complied with 75 CPs in the 2016 Review whilst the same number of CPs was complied with by 35% of the issuers examined in the 2014 Review. Nearly all the issuers in the 2016 Review complied with 70 or more CPs, out of 78. These results indicate that issuers' compliance with the Code has improved.¹⁵ See Table A below for a more detailed breakdown:

Table A: Number of CPs¹⁶ disclosed by issuers as compliant

Number of CPs complied	2016		2014	
	Number of issuers	Percentage of issuers	Number of issuers	Percentage of issuers
78	485	34%	N/A	N/A
77	515	36%	N/A	N/A
76	251	18%	N/A	N/A
75	86	6%	433	35%
74	59	4%	416	34%
73	12	1% ¹⁷	210	17%
72	11	1%	88	7%
71	2	0%	53	4%
70	2	0%	15	1%
<70	5	0%	22	2%
Total	1,428	100%	1,237	100%

¹⁵ See footnote 7.

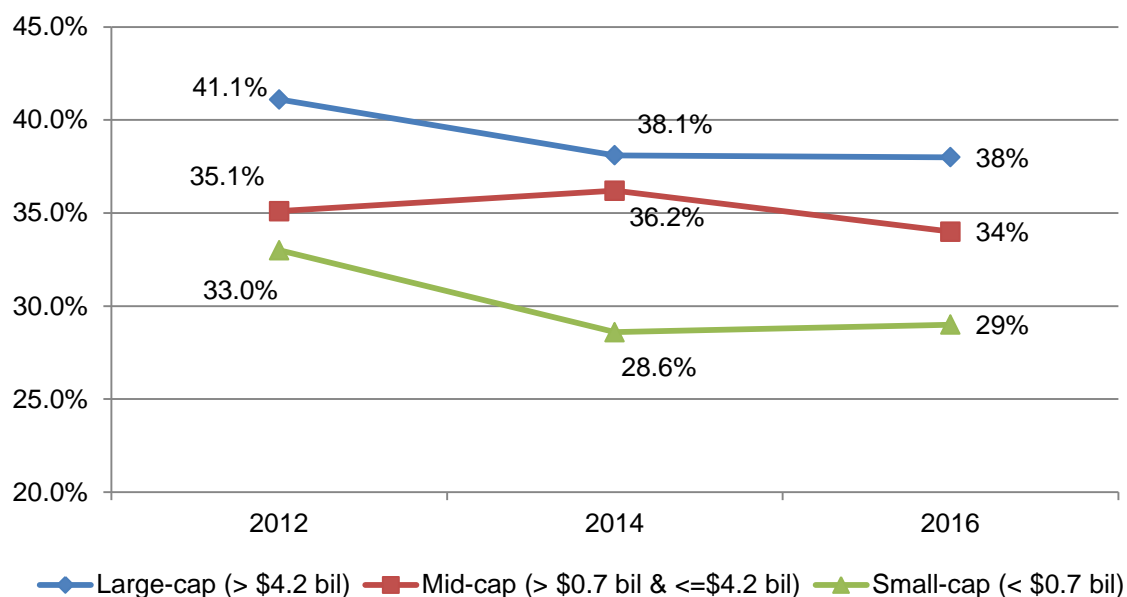
¹⁶ At the 2014 Review, there were 75 CPs. The introduction of three CPs in Section C of the Code on 1 January 2016 brought the total number of CPs to 78 for the purpose of the 2016 Review.

¹⁷ The figures are rounded off to whole numbers. The actual percentages for issuers having complied with: 73 CPs is 0.8% , 72 CPs is 0.7%, 71 is 0.1%, 70 is 0.1% and 0.4% for compliance below 70 CPs, respectively.

Market Capitalisation

19. We examined the overall compliance rates of issuers by reference to their market capitalisation. Consistent with previous reviews, the results show that large-cap issuers achieved a higher rate of compliance than mid-cap and small-cap issuers.
20. Compared with the 2014 Review, the 2016 Review shows that the rate of full compliance has dropped by 2% for mid-cap issuers whilst the rate for large and small-cap issuers remain constant. See Chart A.

Chart A: Percentage of issuers with full compliance (by market capitalisation)

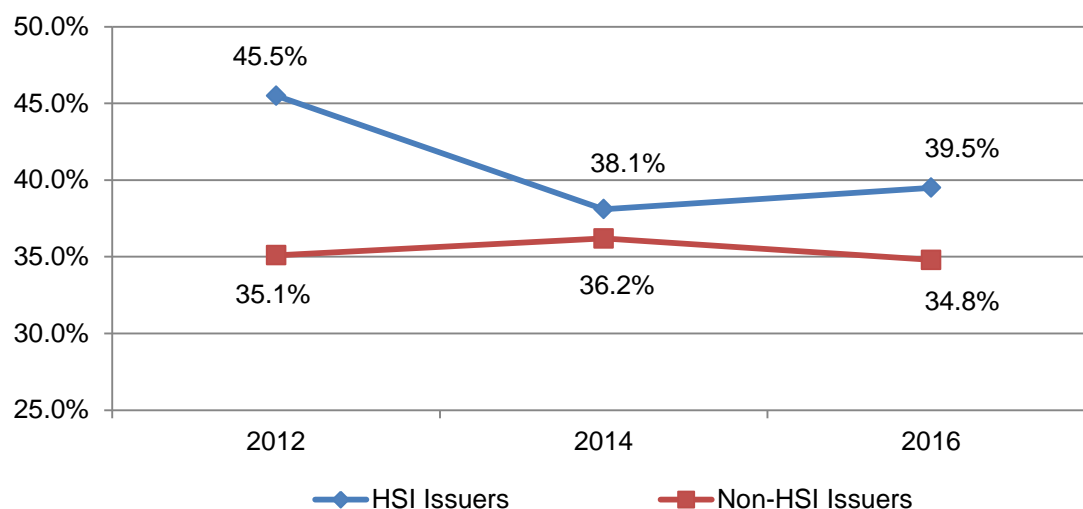


HSI versus non-HSI companies

21. We compared the overall compliance rate of HSI and non-HSI companies.¹⁸ In the 2016 Review, the full compliance rate for HSI companies was 39.5% (as compared to 38.1% in 2014 Review) and 34.8% for non-HSI companies (36.2% in 2014 Review). The gap of the full compliance rates between HSI and non-HSI companies has widened to 4.7% in the 2016 Review (1.9% in 2014). See Chart B.

¹⁸ 43 out of the 50 HSI companies had a financial year-end at 31 December 2016.

Chart B: Percentage of issuers with full compliance (by HSI and non-HSI companies)



B. Risk Management and Internal Control

Review of Risk Management and Internal Control Systems

22. In 2014, the Exchange conducted a consultation on review of the Risk Management and Internal Control section of the Code. The consultation concluded with the amendment of the Code effective on 1 January 2016. Three of the existed RBPs (C.2.3, C.2.4 and C.2.5) were upgraded to CPs and a new RBP was introduced.¹⁹
23. Under the revised CP C.2.1, the board should oversee the issuer's risk management and internal control systems on an ongoing basis. It further provides that directors should at least annually conduct a review of the issuer's risk management and internal control systems.
24. All issuers stated that they had conducted at least one internal control review during their 2016 financial year.
25. All issuers stated that they complied with CP 2.3 (specific considerations in the annual review of the issuers' risk management and internal control systems).
26. CP C.2.4 requires issuers to disclose, in the Corporate Governance Report, a narrative statement on how they have complied with the risk management and internal control CPs during the reporting period on each of the following aspects:
 - the process used to identify, evaluate and manage significant risks;
 - the main features of the risk management and internal control systems;
 - an acknowledgement of the board's responsibility on maintaining the effectiveness;
 - the process to review the effectiveness; and
 - procedures and internal controls for the handling and dissemination of inside information.

¹⁹ See paragraph 11(c).

27. Although all issuers claimed compliance with CP C.2.4, on closer examination, we note that only 53% reviewed in the 2016 Review fully complied with this CP. We note that some issuers omitted to disclose the process and features of their risk management and internal control systems and some also did not respond to the recommendation to disclose the procedures on the handling of inside information.

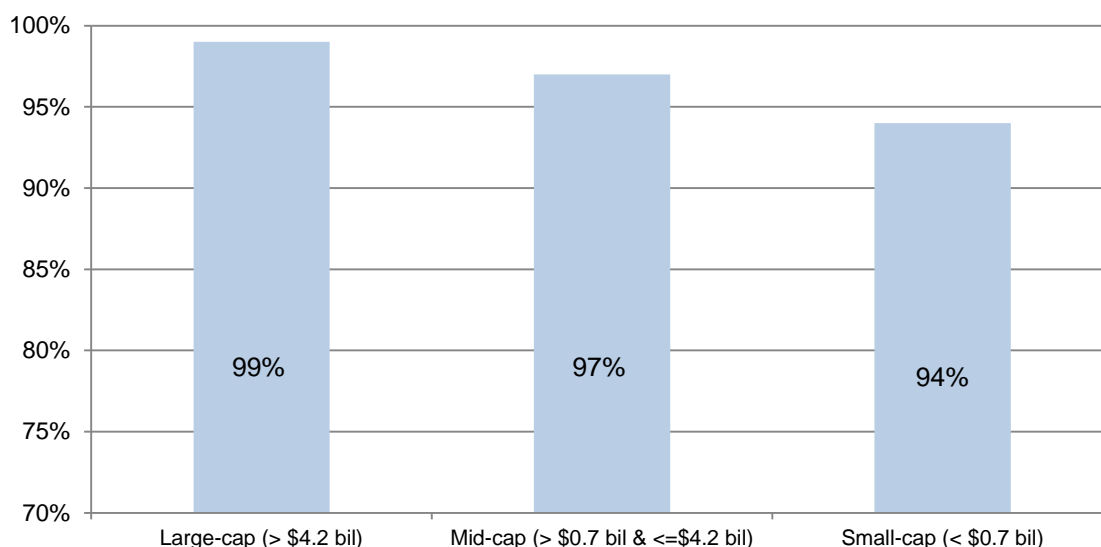
Internal Audit Function

28. Under CP C.2.5, issuers should have an internal audit function, and issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report.

29. For the financial year 2016, 97% of all issuers examined disclosed that they had an internal audit function, a significant increase from the 47% in 2014.²⁰ The most common reason given for not having such a function was the size of the issuer being small. In some cases, the issuers stated that the board acted as the internal audit function. We do not consider that the board is sufficiently independent to appraise the issuer's risk management and internal control systems, such a function should be independent from the board but reporting to the board.

30. Chart C shows that the compliance rates for different market capitalisation groups are similar. In previous reviews, it was more common for large-cap issuers than mid and small-cap ones to have disclosed that they had an internal audit function.

Chart C: Percentage of issuers (by market capitalisation) with internal audit function



²⁰ It is worth noting that in the 2014 Review, disclosure of whether the issuer had an internal audit function was a RBP. This figure represents the percentage of issuers which made voluntary disclosures in response to the RBP. Some issuers may have complied with this RBP without making a disclosure.

CHAPTER 3: ANALYSIS OF DEVIATIONS

31. The compliance rates with all CPs are set out in **Table 1** of **Appendix I**. The ten CPs with the lowest compliance rates and the percentage of issuers that deviated from the CPs are set out in **Chart 1** of **Appendix I**.
32. A number of areas of corporate governance warrant special mention:
 - nomination committee and INEDs;
 - board diversity; and
 - risk management and internal control.

Nomination committee and INEDs

33. We note that CP A.5.1²¹ (requires the establishment of a nomination committee) is one of the five CPs with the lowest compliance rates in the 2014 and 2016 reviews. We also note that the most common reason given for deviating from this CP was that the board is collectively responsible for nomination of directors. These issuers further explained that it was in the best interests of the issuer that the board collectively reviewed, deliberated on and approved the structure and composition of the board including the appointment of new directors.
34. The principal responsibility of the nomination committee is to review the size, structure and composition of the board, identify and recommend appropriate candidates for election or re-election to the board. The work of the committee has a tremendous influence on the future success of the board and the issuer.
35. Under Principle A.3 of the Code, the board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the issuer's business. To achieve the Principle, the nomination committee or the board should have a nomination policy, a set of nomination procedures and the process and criteria that it adopts to select and recommend individuals for directorships.
36. Under CP A.5.2, the nomination committee is responsible for assessing the independence of proposed and existing INEDs. INEDs play an important role in assuring investor confidence by acting in the interest of the company and shareholders. Under CP A.6.2 and the Listing Rules²², INEDs are expected to exercise independent judgment, to monitor and guard against conflicts of interest.
37. We note the main reason put forward for not having a nomination committee is the board as a whole is responsible for the role. However, given certain corporate governance concerns such as the independence (or the lack thereof) of INEDs, overboarding by certain INEDs as well as the slower than global average growth in board diversity²³, are under the responsibilities of the nomination committee, we urge issuers that have not established a nomination committee to reconsider their position. Issuers that have established a nomination committee should also place renewed focus on their nomination committee's role in order to address the corporate governance concerns discussed above.

²¹ This was a RBP upgraded to a CP in April 2012.

²² Rules 14A.40 and 14A.41.

²³ See Egon Zehnder's 2016 Global Board Diversity Analysis, accessible at: http://www.gbda.online/assets/EZ_2016GBDA_DIGITAL.pdf

Board diversity

38. Board diversity is increasingly important as a factor for investors when making investment decisions and which is an area our market should focus on. Although diversity encompasses more than simply gender, the statistics on gender diversity can be obtained with more certainty than other factors such as cultural, educational background and professional experience, etc. Since the introduction of CP A.5.6²⁴ in 2013, there have been some small improvements on the statistics relating to gender diversity.²⁵ However, compared with other markets, Hong Kong appears to be lagging behind in terms of the ratio of women on boards and appear to fair below the average growth according to some research statistics.²⁶
39. We believe the nomination committee could play a crucial role in improving issuers' board diversity. The nomination committee should consider, with each potential nomination, the skills, experience and diversity of perspectives that the individual would bring to the board and how the appointment would enhance diversity. By setting a policy on board diversity, and disclosing the policy with measurable objectives for implementing the policy and any progress made, the nomination committee would help to promote board diversity.
40. In the 2016 Review, we reviewed the issuers' compliance level with CP A.5.6. Among the 1,428 issuers, 99.7% reported that they had complied with the CP. However, the 2016 Review revealed that 10.2% of the reports did not contain such policies. There was also a dearth of comprehensive disclosures on issuers' measureable objectives for the implementation of the policies.
41. We urge issuers to take a closer look at their corporate governance reports and rectify any possible omissions in their next report. Non-compliance with any part of the CPs without giving considered reasons amounts to a breach of the Listing Rules. We will continue to monitor issuers' compliance and may take disciplinary actions where appropriate.

Risk management and internal control

42. We are pleased to see that our mid and small-cap issuers responded well to our newly upgraded CP²⁷ requiring issuers to have internal audit function (see paragraph 30). The overall percentage of issuers that have an internal audit function leaped from 47% to 97%.²⁸
43. However, the disclosures in respect of the newly upgraded CP C.2.4 (requires a narrative statement on each of the specified aspects²⁹ of the annual review) has room for improvement. The 2016 Review shows that whilst 100% claimed compliance with this CP, only 53% of all issuers examined fully complied with this CP. Many of the

²⁴ Under CP A.5.6, the nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the Corporate Governance Report. The Note under CP A.5.6 states that "diversity of board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience."

²⁵ According to HKEX's statistics, at the end of 2016, 12.2% of the board members of all issuers were women (10.3% in May 2012) and 35% of the issuers (40% in May 2012) had no women directors on their board.

²⁶ See Egon Zehnder's 2016 Global Board Diversity Analysis, accessible at:

http://www.gbda.online/assets/EZ_2016GBDA_DIGITAL.pdf

²⁷ CP C.2.5.

²⁸ See footnote 20.

²⁹ See paragraph 11 for details.

disclosures were vague or not responding to the specific aspects set out in the CP. In order to communicate the issuer's efforts in the review process and for the company to reap the benefit of sound risk management and internal control systems, issuers should place greater focus on addressing these shortcomings and focus on better disclosure.

The five CPs with the lowest compliance rates and their reasons

44. The five CPs with the lowest compliance rates were A.2.1, A.6.7, E.1.2, A.4.1, and A.5.1.
45. Compared with the 2014 Review, compliance rate of these CPs remains constant. See Table B.

Table B: Five CPs with the lowest compliance rates in 2016 against 2014

CPs		Compliance rates	
		2016 Review	2014 Review
A.2.1	Separation of the roles of chairman and chief executive	63%	64%
A.6.7	Non-executive directors' attendance at general meetings	80%	80%
E.1.2	Chairman's attendance at AGM	86%	86%
A.4.1	Non-executive directors being appointed for a specific term, subject to re-election	88%	86%
A.5.1	Establishment of a nomination committee which is chaired by the chairman of the board or an independent non-executive director	95%	95%

46. The reasons for deviations for the top five most common deviations of the 2016 Review are examined further below and they are similar to those of the 2014 Review.

A.2.1 - The roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Summary of explanations

47. The most common reason issuers gave for departure from the CP was that one person performing the roles of both chairman and chief executive can provide strong and consistent leadership and can enable more effective planning and better execution of long-term strategies.

48. A significant number of issuers that deviated from this CP disclosed that the board has confidence in the person who acts as both chairman and chief executive, because that person possesses ample knowledge of the issuer's operations.
49. Some issuers explained that contributions are made by the board as a whole, all executive and independent non-executive directors bring diverse experience and expertise to the board. They have regular discussions in relation to the issuer's operations and are, in practice, collectively playing the roles of chairman and chief executive.
50. Other reasons given include: the size of the group, the scope and nature of the company business, or a practical necessity arising from the corporate operating structure.
51. Amongst those that deviated from this CP, 6% (i.e. 32 issuers) took follow-up actions or explained the mitigation action they have taken. For example, a number of issuers were non-compliant with the CP for only part of the year due to the resignation of the chairman or chief executive. Some of them have subsequently complied during the year by recruiting a replacement.
52. The statistics relating to the reasons given for the deviation from this CP are set out in **Table 2 of Appendix I**.

A.6.7 - Independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

Summary of explanations

53. This CP was upgraded from a RBP in April 2012.
54. Amongst those that deviated from this CP, a substantial majority stated that their non-executive directors failed to attend meetings due to other business engagements. Some issuers only briefly disclosed the reasons as not available or not in Hong Kong.
55. Amongst those that deviated from this CP, 14% (i.e. 39 issuers) took mitigation action, for example those directors who failed to attend held follow-up meetings with the chairman of the board to express their opinions or concerns on the subject matters. About 5% (i.e. 14 issuers) included an action plan for achieving compliance in the coming year, such as scheduling meetings earlier to avoid timetable clashes.
56. The statistics relating to the reasons given for the deviation from this CP are set out in **Table 3 of Appendix I**.

E.1.2 - The chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to

answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. An issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

Summary of explanations

57. Issuers that did not comply with this CP commonly stated that the person(s) required by this CP to attend the AGM were unable to do so as they had other commitments (mainly business engagements). The statistics relating to the reasons given for the deviation from this CP are set out in **Table 4** of **Appendix I**.
58. A breakdown of whether it was the chairman or the chairman of the committee(s) who failed to attend the AGM is at **Table 5** of **Appendix 1**. In a vast majority of cases, it was the chairman of the board who failed to attend the AGM. We also note that these chairmen tend not to be those with a combined role of chairman and chief executive.

A.4.1 – Non-executive directors should be appointed for a specific term, subject to re-election.

Summary of explanations

59. The compliance level with this CP has improved by 2% from the 2014 Review.
60. Among the issuers that did not comply with CP A.4.1, most stated that non-executive directors are not appointed for a specific term but are subject to retirement by rotation³⁰ at least once every three years at each AGM according to their articles of association, by-laws or equivalent constitutional document.

A.5.1 – Issuers should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

Summary of explanations

61. This CP was upgraded from a RBP in April 2012. The compliance level with this CP remains approximately the same from the 2014 Review.
62. Many issuers that deviated from this CP disclosed that the board is collectively responsible for nomination of directors. A smaller number of issuers stated that it was in the best interests of the issuer that the board collectively reviewed, deliberated on and approved the structure and composition of the board including the appointment of new directors.
63. Several issuers detailed their plans to rectify the non-compliance in the future.

³⁰ Retirement by rotation generally refers to a process whereby at each annual general meeting one third of the directors must retire from their position and seek re-election as a director.

APPENDIX I: SUMMARY OF STATISTICS

Table 1: Compliance rate with each CP

Code Provision	2016	2014
	% of compliance	% of compliance
A.1.1	98%	98%
A.1.2	100%	100%
A.1.3	99%	99%
A.1.4	100%	100%
A.1.5	100%	100%
A.1.6	100%	100%
A.1.7	100%	100%
A.1.8	98%	98%
A.2.1	63%	64%
A.2.2	100%	100%
A.2.3	100%	100%
A.2.4	100%	100%
A.2.5	99%	100%
A.2.6	100%	100%
A.2.7	96%	96%
A.2.8	100%	100%
A.2.9	100%	100%
A.3.1	100%	100%
A.3.2	100%	100%
A.4.1	88%	86%
A.4.2	96%	95%
A.4.3	99%	100%
A.5.1	95%	95%
A.5.2	97%	97%
A.5.3	98%	97%
A.5.4	98%	97%
A.5.5	100%	100%
A.5.6	100%	99%
A.6.1	100%	100%
A.6.2	100%	100%
A.6.3	100%	100%
A.6.4	100%	100%
A.6.5	100%	100%
A.6.6	100%	100%
A.6.7	80%	80%
A.6.8	100%	100%
A.7.1	100%	100%
A.7.2	100%	100%
A.7.3	100%	100%
B.1.1	100%	100%
B.1.2	99%	99%
B.1.3	100%	100%
B.1.4	100%	100%
B.1.5	100%	100%

	2016	2014
Code Provision	% of compliance	% of compliance
C.1.1	100%	100%
C.1.2	99%	99%
C.1.3	100%	100%
C.1.4	100%	100%
C.1.5	100%	100%
C.2.1	100%	100%
C.2.2	100%	100%
C.2.3	100%	N/A
C.2.4	100%	N/A
C.2.5	97%	N/A
C.3.1	100%	100%
C.3.2	100%	100%
C.3.3	99%	99%
C.3.4	100%	100%
C.3.5	100%	100%
C.3.6	100%	100%
C.3.7	100%	100%
D.1.1	100%	100%
D.1.2	100%	100%
D.1.3	100%	100%
D.1.4	98%	98%
D.2.1	100%	100%
D.2.2	100%	100%
D.3.1	100%	100%
D.3.2	100%	100%
E.1.1	100%	100%
E.1.2	86%	87%
E.1.3	100%	100%
E.1.4	100%	100%
E.2.1	100%	100%
F.1.1	99%	99%
F.1.2	100%	100%
F.1.3	99%	99%
F.1.4	100%	100%

Chart 1: The ten CPs with the lowest compliance rates

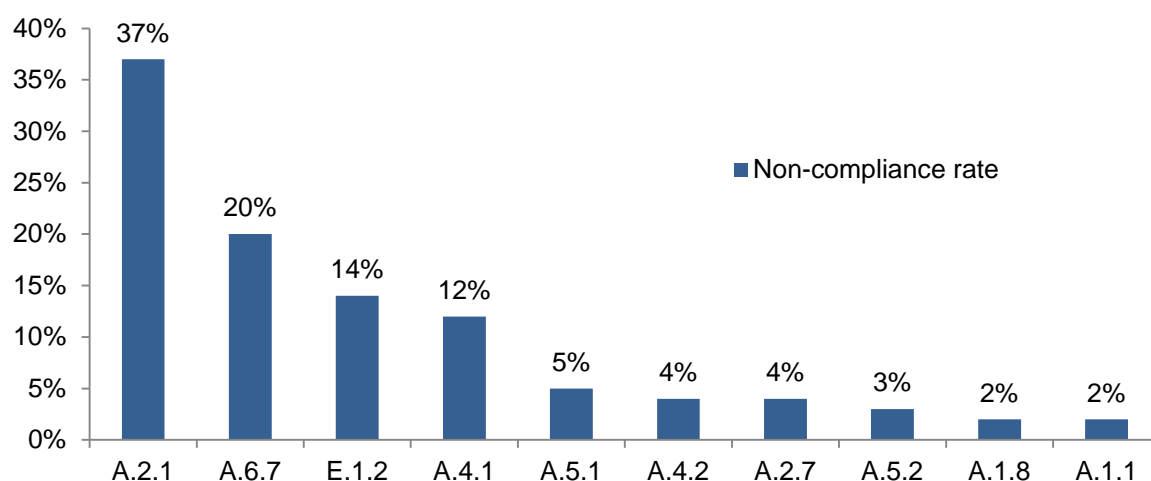


Table 2: Reasons disclosed for not separating the roles of Chairman and Chief Executive (CP A.2.1)

Reasons	Number of issuers	% of issuers deviated from CP A.2.1
The same person provides the Group with strong and consistent leadership, allows for more effective planning/formulation and execution/implementation of long-term business strategies.	163	30%
The board has confidence in the person who acts as chief executive and chairman, e.g. because the person is knowledgeable, well-known and/or has a good understanding of the operations of the issuer.	50	9%
Contributions are made by all executive directors/independent non-executive directors, who bring different experience and expertise and who meet regularly to discuss issues affecting the issuer's operations.	45	8%
Due to the size of the Group, the scope and/or nature of its business and/or a practical necessity arising from the corporate operating structure.	17	3%
The issuer considers its structure is sufficiently consistent with the Code and the deviation has no materially adverse impact on its corporate governance structure.	47	9%
The responsibilities of the chairman and chief executive are clear and distinct and therefore need not be set out in writing.	4	1%
More than one of the above	119	22%
Others	91	17%
Total	536	100%

Table 3: Reasons disclosed for non-executive directors' absence at the general meetings (CP A.6.7)

Reasons	Number of issuers	% of issuers deviated from CP A.6.7
Business engagement	176	62%
Health / other personal reason	10	3.5%
Others (including oversea engagement, resignation and retirement)	87	31%
More than one of the above	10	3.5%
Total	283	100%

Table 4: Reasons disclosed for absence of chairman of the board/ board committees at AGM (CP E.1.2)

Reasons	Number of issuers	% of issuers deviated from CP E.1.2
Business engagement	138	70%
Health / other personal reason	10	5%
Others (including oversea engagement, resignation and retirement)	48	24%
More than one of the above	2	1%
Total	198	100%

Table 5: Breakdown on parties unable to attend AGM (CP E.1.2)

Parties	Number of issuers	% of issuers deviated from CP E.1.2
Chairman of the board	148	75%
Chairman of board committee(s)	29	15%
Both of the above	21	11%
Total	198	100%

APPENDIX II: SCOPE OF PAST REVIEWS

- The Exchange implemented the Code in 2005 and revised it in 2012, 2013, 2014 and 2016. We previously reviewed issuers' compliance with the Code for the years 2005, 2006, 2007, 2009, 2012 and 2014. The 2014 Review involved reviewing all issuers with December 2014 year-end (a total of 1,237 issuers). In order to gain a more holistic view of the overall corporate governance standards, we further reviewed all issuers with financial year ended March and June 2015 (a total of 384 issuers) in 2016.
- The table below summarises the scope of past reviews:

Year	Number of annual reports reviewed for compliance
2005	621
2006	See Note
2007	See Note
2009	132
2012	1,083
2014	1,237
March 2015	318
June 2015	81

Note - For the 2006 and 2007 reviews, Code compliance was reviewed for all issuers except for long suspended, recently de-listed companies and one secondary listed company. The Code compliance was measured based on issuers' replies to a questionnaire. These replies were then verified with issuers' disclosure in their annual reports for a 20% sample.

- The results of the 2006 and 2007 reviews were relatively similar and the differences insignificant. We found issuing questionnaires to all issuers an inefficient way to review corporate governance compliance. Therefore, we decided to conduct the 2009 review by looking at corporate governance reports on a sample basis.
- In 2009, we divided the 1,319 issuers listed as at the end of 2009 into large-, mid- and small-cap categories according to their market capitalisation.³¹ We then reviewed the 2009 annual reports of 10% of issuers randomly selected from each category.

³¹ In the 2009 review, "Large-cap" was defined as issuers with a market capitalisation of greater than HK\$1 billion, "mid-cap" as issuers with a market capitalisation greater than HK\$0.4 billion and smaller than or equal to HK\$1 billion, and "small-cap" as issuers with a market capitalisation of smaller than or equal to HK\$0.4 billion. These definitions are different from those used in the 2016 Review. See footnote 6 for the definitions in the 2016 Review.

- The 2012 review is the first review after the Code was revised in 2012. We adopted the same approach as the 2005 review, i.e. reviewing the annual reports of issuers that had a financial year-end at 31 December. We examined 1,083 issuers (excluding those issuers that were long suspended, recently de-listed, had delayed in publishing annual reports, and two secondary listed companies). We reviewed 70% of all of our issuers.
- The 2014 Review adopted the same approach as the 2005 and 2012 reviews. We examined 1,237 issuers (excluding those issuers that were long suspended, recently de-listed, had delayed in publishing annual reports, and six secondary listed companies). We reviewed approximately 70% of all of our issuers as at 31 December 2014.
- The 2016 Review adopted the similar approach as 2005, 2012 and 2014 reviews. We examined 1,428 issuers (excluding those issuers that were long suspended, recently delisted, had delayed in publishing annual reports, and secondary listed companies). We reviewed approximately 72% of all of our issuers as at 31 December 2016.

