

Corporate Governance Guide for Boards and Directors

Contents

| | |
|--|-----------|
| Introduction | 1 |
| Chapter 1 – Board and Directors | 2 |
| The board | 2 |
| Directors | 3 |
| Specific requirements for INEDs | 6 |
| Board committees | 13 |
| Company secretary | 18 |
| Chapter 2 – Board Effectiveness | 20 |
| Company culture | 20 |
| Board performance review | 22 |
| Board skills matrix | 26 |
| Director training | 28 |
| Shareholder engagement | 32 |
| Chapter 3 – Diversity | 35 |
| Board diversity | 35 |
| Diversity policy | 36 |
| Setting targets and objectives | 37 |
| Useful resources | 37 |
| Chapter 4 – Risk Management and Internal Controls | 38 |
| Roles and responsibilities | 38 |
| Risk management | 40 |
| Internal controls | 42 |
| Policies on whistleblowing and anti-corruption | 50 |

Disclaimer

The information contained in the Guide is for general information purposes only and does not form part of the Listing Rules. The Guide does not amend or vary any Listing Rule requirements, or is it 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

The Stock Exchange of Hong Kong Limited (the **Exchange**) is focused on, and committed to, promoting good corporate governance practices among listed issuers and elevating the quality of their boards of directors.

The Exchange reviews the corporate governance framework from time to time to ensure that it remains fit for purpose and maintains investors' confidence in the market. The Exchange published the consultation conclusions on its review of the Corporate Governance Code (**CG Code**) and related Listing Rules in December 2024, with the relevant CG enhancements taking effect from 1 July 2025.

Delivering effective corporate governance practices is more than a box-ticking exercise. In addition to market regulation, the Exchange supports issuers and directors by providing training and publishing guidance materials.

The Corporate Governance Guide for Boards and Directors (**Guide**), which should be read alongside the relevant Listing Rules (including the CG Code), is intended to support the board's application of the CG Code and stimulate the board's thinking on how it can carry out its role most effectively by providing advice, examples and further elaboration.



Chapter 1 – Board and Directors

- The board and its directors are central to an issuer's decision making and are pivotal in establishing good corporate governance, which enables the issuer to achieve long-term success.
- In discharging its responsibilities and implementing its plans, the board operates through specific board committees assisted by management (and other important internal functions of the issuer) and external professional advisers.

The board

Role of the Board

1. Under the Listing Rules, the board of directors is collectively responsible for an issuer's management, operations and decisions. The key functions of the board include the following:
 - **Leadership:** The board leads, directs and supervises the issuer's affairs to enable the long-term success of the issuer¹.
 - **Corporate culture:** The board shapes and monitors the issuer's culture in the form of clear objectives, values, ethics and integrity (see also the section on [Corporate Culture](#))².
 - **Setting objectives:** The board identifies and defines the issuer's long-term strategic objectives³:
 - i. **Operational objectives** aim to facilitate effective and efficient operation for the purpose of achieving performance goals.
 - ii. **Reporting objectives** aim to safeguard the quality of the issuer's internal and external reporting, including through the maintenance of proper records and processes that assist in generating timely, relevant and reliable information.
 - iii. **Compliance objectives** aim to assist the issuer in achieving regulatory compliance (and compliance with applicable local laws) and adhering to internal policies with respect to the operation of the issuer's business.
 - **Risk management:** The board defines the issuer's risk tolerance and oversees the issuer's risk identification and management with a view to achieving the issuer's objectives⁴.

¹ Principle A.1 of the CG Code.

² Code Provision (CP) A.1.1 of the CG Code.

³ Principle D.2.

⁴ Mandatory Disclosure Requirement (MDR) paragraph H and Principle D.2 of the CG Code.

- **Internal controls:** The board ensures that the issuer has a system of appropriate and effective internal controls in place and monitors and reviews the effectiveness of the internal controls at least annually⁵.
- **Information management / disclosure:** The board should agree on and oversee the flow of information to and from the board, and ensure that it has access to relevant and timely information that is of sufficient quality to enable effective decision-making⁶. The board should also ensure appropriate and adequate reporting and disclosures for regulatory compliance and transparency to stakeholders⁷.
- **Resources / qualifications:** The board evaluates its performance through regular board performance reviews and considers its existing qualifications and expertise against the issuer's long-term objectives⁸. The board also ensures adequacy of resources, qualifications and experience for management and staff⁹.
- **Shareholder / stakeholder engagement:** The board provides transparent and timely disclosure to shareholders and maintains appropriate communication channels for shareholders / other key stakeholders to express their ideas, feedback and concerns¹⁰.

Directors

Directors' duties

2. All directors, namely the executive directors (**EDs**), non-executive directors (**NEDs**) and independent non-executive directors (**INEDs**), are collectively responsible for the issuer's management and operations¹¹. Directors have to fulfil their duties both collectively and individually. An individual director may be liable (through the collective liability of the board) for the issuer's Listing Rule breaches, even if that director did not participate in the relevant conduct that led to the issuer's breach, or the breach arose from a part of the issuer's business or operations that was not covered by that director's role.
3. All directors are subject to the same duties under the law and the Listing Rules¹². Among other duties, directors must (i) act in the interest of the issuer and avoid any actual or potential conflict of interest; (ii) apply such degree of skill, care and diligence as may reasonably be expected of a person with such director's knowledge and experience; and (iii) comply with the Listing Rules and procure the issuer's compliance with the Listing Rules (and other relevant laws and regulations).

⁵ MDR paragraph H and CP D.2.1.

⁶ CPs C.5.9 and D.1.2.

⁷ CG Code and Appendix D2 to the Main Board Rules (**MB Rules**) (Disclosure of Financial Information). MB Rule 13.91(5)(d) / GEM Rule 17.103(5)(d) and paragraph 4(2)(d) of the ESG Code (Appendix C2 to the MB Rules / Appendix C2 to the GEM Rules).

⁸ CP B.1.4.

⁹ CP D.2.1(f).

¹⁰ MDR paragraph L.

¹¹ MB Rule 3.08 / GEM Rule 5.01.

¹² MB Rule 3.08 / GEM Rule 5.01.

4. To properly discharge their duties, it is not sufficient for directors, regardless of their position or role, to only attend to the issuer's affairs at formal meetings (e.g. board meetings). Each director must take an active interest in the issuer's affairs and have a general understanding of the issuer's business. This includes following up on any issues that come to a director's attention.
5. While the duties under the Listing Rules are the same for all directors, EDs, NEDs and INEDs fulfil different roles and functions within an issuer.

Chair of the board

6. The chair of the board leads the board. The chair is essential in driving the board's agenda, setting the tone for establishing good corporate governance practices and procedures, and, ultimately, enabling the board to function effectively¹³.
7. The role of the chair is separate from the role of the chief executive officer, who is responsible for leading the issuer's operations. There should be a clear division between these two roles, which should be performed by separate individuals¹⁴. This is to ensure (among other things) a balance of power and authority, and to provide a check and balance on the exercise of power. Issuers with the same director fulfilling both roles should have alternative arrangements in place to address potential governance issues (e.g. an internal control framework that assists the issuer in scrutinizing important decisions and monitoring the exercise of power by the chair cum chief executive).
8. The chair also fulfils the important role as a point of contact on the board with (i) the INEDs and (ii) the shareholders. The chair should meet (at least annually) with the INEDs (without the presence of other EDs) to ensure that INEDs can share their independent opinions¹⁵. The chair should also ensure that there are effective communication channels with shareholders and attend the issuer's annual general meetings to address shareholders' queries and receive feedback¹⁶.
9. Due to the chair's pivotal role in leading the board and providing checks and balance to the role of the chief executive officer, issuers may consider appointing an INED as board chair. Where the board chair is not an INED, the Exchange encourages issuers to designate one INED as a Lead INED¹⁷.

Executive directors

10. EDs are involved in the day-to-day operations of the issuer's business. As members of the issuer's senior management, they work closely with and supervise other management staff and ensure that management is accountable to the board in implementing the issuer's objectives.

¹³ CPs C.2.2 to C.2.9.

¹⁴ CP C.2.1.

¹⁵ CP C.2.7.

¹⁶ CPs C.2.8 and F.1.3.

¹⁷ Recommended Best Practice (RBP) C.1.8 of the CG Code.

11. While individual EDs may have a specific role and responsibilities (e.g. for a particular aspect of the issuer's business or operations), each ED has the same duties as the other board members.
12. EDs should update the board on their work and maintain an ongoing dialogue with other board members by responding to enquiries or challenges from other board members and ensuring that they have the opportunity to share their views¹⁸.

Non-executive directors and independent non-executive directors

13. NEDs are not part of an issuer's management and are not considered independent. INEDs are independent NEDs who fulfill the independence criteria under the Listing Rules. As with EDs, NEDs and INEDs have to fulfil their duties as directors both collectively and individually.
14. While EDs are normally industry practitioners or experts in the issuer's business, NEDs and INEDs provide valuable skills and experience (e.g. legal, accounting, real estate and IT) to enhance the board's balance of skills and expertise and further promote a diversity of perspectives on the board.
15. NEDs and INEDs have to be able to devote sufficient time to their role to meaningfully contribute to the board¹⁹. Potential candidates should carefully consider whether their existing commitments allow them to devote such time and effort before accepting a new board appointment.
16. NEDs and INEDs should ensure that they have a sufficient understanding of the issuer's business and affairs to monitor and scrutinise the issuer's performance in achieving its goals and objectives and oversee the issuer's risk management and internal control systems.
17. To discharge their duties, NEDs and INEDs need to have access to timely and quality information. An issuer's management should provide all members of the board with such information, and if it fails to do so, then any director is entitled to and should request for that information²⁰. Such information may include (where available) monthly management accounts and management updates, background or explanatory information relating to matters to be brought before the board, copies of disclosure documents, budgets, forecasts and other relevant internal financial statements.
18. As the independent voice on the board, INEDs are key to the effective functioning of the board. Issuers must have at least three INEDs²¹ and INEDs must constitute at least one-third of the board²². In addition, the Listing Rules require the remuneration

¹⁸ CP C.2.9.

¹⁹ Principle B.1.

²⁰ CP D.1.2.

²¹ MB Rule 3.10(1) / GEM Rule 5.05(1).

²² MB Rule 3.10A / GEM Rule 5.05A.

committee and the audit committee to be chaired by INEDs (the nomination committee has to be chaired by the board chair or an INED) ²³.

19. INEDs fulfil important roles on the board, including²⁴:
- Bringing independent judgement to bear in board meetings on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct.
 - Taking the lead where potential conflicts of interests arise.
 - Supervising the issuer's risk management and internal controls.
 - Serving on the board committees (if invited).
 - Scrutinising the issuer's performance in achieving agreed goals and objectives, and monitoring performance reporting.
 - Acting as a pivotal contact point on the board for shareholders and investors (see also the section on the [Lead INED](#)).
20. To learn more on topics relevant to the INEDs' exercise of their roles and duties, please visit the relevant subpages of the Exchange's [INED Corner](#) as well as "[A Snapshot of INEDs' Roles and Responsibilities](#)" published by the Exchange. Please also refer to the section titled [Specific requirements for INEDs](#) for specific regulatory requirements for INEDs.

Specific requirements for INEDs

Tenure of INEDs

21. Board independence with periodic refreshment, in particular the appointment of new INEDs, contribute to good corporate governance and help prevent "groupthink".
22. To promote board renewal and diversity of perspectives in the boardroom, the tenure of INEDs is capped at nine years (**Cap on INED Tenure**) ²⁵. This Cap on INED Tenure is applied in two phases over a transition period:

| | Timing | Requirement |
|------------------|--|---|
| Phase one | Compliance by the first annual general meeting (AGM) held on or after 1 July 2028 | The majority of INEDs on an issuer's board (i.e. > 50%) must be INEDs who have served on the board for less than nine years |
| Phase two | Compliance by the first AGM held on or after 1 July 2031 | An issuer must not have any INED who has served on the board for nine years or more (Long Serving INED) on their board |

²³ MB Rules 3.21, 3.25 and 3.27A / GEM Rules 5.28, 5.34 and 5.36A.

²⁴ Principle C.1 and CP C.1.2.

²⁵ MB Rule 3.13A / GEM Rule 5.09A.

23. The nine-year tenure of an INED is calculated from the issuer's listing date (where the INED is appointed prior to the issuer's listing) or the INED's date of appointment (where the INED is appointed after the issuer's listing). For further guidance on the calculation of INED tenure, please refer to [FAQ1.1-No.12 - 16](#) published by the Exchange.
24. Issuers should conduct comprehensive succession planning to allow sufficient time for the recruitment of suitable replacement INEDs. An orderly phase-out of Long Serving INEDs can avoid abrupt changes to board composition and minimise the impact on board continuity and any gaps in experience and governance.
25. Issuers may re-designate a Long Serving INED as a NED to enable them to continue to contribute to the board.
26. There should be a fair and open recruitment process to select the most suitable candidate to fill a board vacancy. Where a former Long Serving INED is reappointed as an INED after a three-year cooling-off period, the issuer must ensure that the former Long Serving INED satisfies the independence guidelines set out in Main Board Listing Rule 3.13 (**Independence Guidelines**). During the cooling-off period, the former Long Serving INED must not serve as a director of the relevant issuer, its holding company or any of their respective subsidiaries or core connected person of the issuer²⁶.

Re-election of Long Serving INEDs during transition period

27. During the transition period, the current requirements in respect of Long Serving INEDs will apply as follows: (i) the current requirements on tenure disclosure in shareholder circulars and the requirement for new INED appointment where all INEDs are Long Serving INEDs²⁷ will apply to any relevant general meeting held on or before 30 June 2028 (i.e. up to the expiry of phase one); and (ii) the current requirements on the re-election of Long Serving INEDs²⁸ will apply to any relevant AGMs held on or before 30 June 2031 (i.e. up to the expiry of phase two).
28. An issuer who decides to re-elect a Long Serving INED during the transition period (i.e. prior to the expiry of phase two) should disclose the steps taken by the nomination committee to nominate that individual (e.g. how it conducted a review of the Long Serving INED's performance and that individual's ability to contribute objectively to the board) and how the board assessed the nomination committee's recommendation.
29. Satisfaction of the Independence Guidelines should not be quoted as the sole reason to justify the re-election of a Long Serving INED – the board's focus should be on the INED's ability to contribute objectively.

Overboarding and INEDs' time commitment

30. INEDs should devote sufficient time and attention to the affairs of the issuer(s) to safeguard high quality decision making on the board. Taking on too many directorships

²⁶ Note 3 to MB Rule 3.13A / Note 3 to GEM Rule 5.09A.

²⁷ CP B.2.4.

²⁸ CP B.2.3.

(in particular, listed issuer directorships) and/or significant outside commitments may compromise their ability to properly discharge their duties.

31. The number of Hong Kong listed issuer directorships that an INED may concurrently hold is capped at six²⁹. Compliance with the cap is required by the first AGM held on or after 1 July 2028 by any issuer that an overboarding INED serves. To facilitate succession planning by affected issuers, discussions as to which directorship(s) an overboarding INED should vacate should be held well in advance of the compliance deadline.
32. Before accepting any new listed issuer directorship role, directors should consider their pre-existing time commitments and the expected additional time commitment of the new role. If an INED is invited to join the board of an issuer that has the same financial year-end as the INED's other issuer(s), that INED should consider whether he / she may be over-burdened during certain periods of the year (e.g. prior to the release of annual and interim reports and during the AGM season).

Annual nomination committee assessment

33. The nomination committee must annually assess and disclose its assessment of each director's time commitment and contribution to the board, taking into consideration their professional qualifications and work experience, listed issuer directorships, other significant external time commitments and other factors or circumstances relevant to their character, integrity, independence and experience³⁰.
34. The nomination committee's assessment is separate from the board performance review, which covers the board as a whole and has a broader scope and different timeframe. Nonetheless, its findings can provide insights that may inform the board performance review.
35. The nomination committee should apply a consistent set of assessment criteria to evaluate all directors (including members of the committee) in a holistic manner and ensure that an impartial assessment is conducted. In respect of the assessment of a member of the nomination committee, the relevant member may consider excusing themselves from the discussion or inviting an additional board member to join the assessment.

²⁹ MB Rule 3.12A / GEM Rule 5.07A.

³⁰ MDR paragraph E(d)(iii) and notes 1 and 2 thereto.

Table 1: Annual nomination committee assessment

| Factors that the nomination committee may consider when assessing | | |
|--|--|---|
| | Directors' time commitment | Directors' contribution to the board |
| Involvement on the board | <ul style="list-style-type: none"> The level of time commitment may vary for different board / board committee positions (e.g. whether the director is a chair or a member of a board committee, and whether the director is a full-time executive director) | <ul style="list-style-type: none"> Preparation for meetings – whether the director is well prepared for board and board committee meetings Participation in meetings – the director's attendance rate and whether he / she contributes his / her views and actively participates in discussions Contribution to board dynamics - whether the director maintains a constructive working relationship with other board members and with management |
| Familiarity with / knowledge of the issuer and its business | <ul style="list-style-type: none"> A newly appointed director may encounter a steep initial learning curve and so should be expected to devote time to understanding the affairs of the issuer | <ul style="list-style-type: none"> Whether the director has spent time and effort to learn and understand the issuer's business model, industry and strategic aims Continuous learning - whether the director takes responsibility for managing their ongoing professional development and staying abreast of relevant regulatory developments |
| Other factors | <ul style="list-style-type: none"> Multiple board directorships - number of directorships held by the director, size and complexity of the issuers, whether the other issuer(s) are experiencing increased activity (e.g. an acquisition, takeover or period of distress) Significant external time commitments - evaluated by their nature and complexity | <ul style="list-style-type: none"> Communication skills - whether the director communicates effectively, and has the willingness to listen to and acknowledge other viewpoints Integrity - whether the director demonstrates integrity through timely conflict of interest disclosures, maintenance of confidentiality etc. Promotion of corporate culture - whether the director upholds and adheres to the issuer's corporate culture and values |

36. When assessing a director's contribution to the board, the nomination committee should not simply focus on the number of hours spent by the director on matters related to the issuer. The factors that it considers should cover the essential responsibilities of an effective director. It may also assess individual directors against further criteria, depending on the director's capacity and/or specific expertise.

Expected disclosure

37. While the Exchange does not expect the disclosure in the corporate governance report³¹ to be on an individual named basis, issuers should, as a minimum, (i) disclose the process that the nomination committee used to conduct its assessment, including its assessment criteria, and (ii) state whether the nomination committee regards the directors' time commitment and contribution to the board (as a whole) to be adequate, with supporting reasons. Issuers are also encouraged to provide further information for enhanced transparency, for example, disclosure of the hours contributed by each director on an unnamed basis, and/or disclosure of the average hours / range of hours contributed by EDs, NEDs and INEDs respectively.

Lead INED

38. A Lead INED can instill investors with greater confidence in the governance of an issuer by fostering a more proactive independent voice on the board and enabling stakeholders to better understand INEDs' contributions.
39. Where the board chair is not an INED, issuers are strongly encouraged to designate one INED as a Lead INED³².

Roles and responsibilities of the Lead INED

40. The primary responsibility of the Lead INED is to facilitate and strengthen communication: among INEDs; between INEDs and the rest of the board; and with shareholders (in particular, minority shareholders). Examples of how the Lead INED can perform this function are set out below:

Communication among INEDs

- Arrange meetings among INEDs without the presence of the chair and the other directors and provide their feedback to the board and/or the chair as appropriate.

Communication between INEDs and the rest of the board

- Ensure active INED participation in board deliberations and activities.
- Act as a moderator between INEDs and other board members on board-level issues.

Communication with shareholders

- Provide shareholders with independent insight on matters such as governance, board effectiveness, corporate strategy and capital management; and how the INEDs have discharged their responsibilities (e.g. the scrutiny of loans granted by the issuer to external parties and connected transactions).
- As they are not responsible for day-to-day management, investors should not expect to discuss the issuer's results or operational matters with the Lead INED. However, for example, in a proposed privatization, where the details of the

³¹ MDR paragraph E(d)(iii).

³² RBP C.1.8.

proposal are already set out in the issuer's shareholder circular, investors may wish the Lead INED to shed light on the board deliberation process (e.g. why the proposed privatization was structured in a particular manner and what other financing alternatives the board had considered).

- Be available to shareholders if they have concerns that their contact through normal communication channels (with the chair or management) has failed to resolve, or for which such contact is inappropriate or inadequate.
 - Develop a balanced understanding of key stakeholder views and concerns and convey the same to the board.
41. Issuers may choose to define additional functions for the Lead INED, for example:
- To act as a sounding board for the chair, including on matters such as board dynamics and stakeholder concerns, and support the chair in the delivery of their objectives.
 - To provide leadership in situations where the chair is conflicted (e.g. evaluate the chair's performance and work with the nomination committee on the chair's orderly succession).
 - To oversee the division of responsibility between the chair and the chief executive, where the two roles are separate.
 - To liaise with the chair and other directors / shareholders to resolve significant issues during challenging times for the board / issuer (e.g. where there is a dispute between the chair and the chief executive, or decisions are being made without the approval of the full board).
42. Issuers should brief and prepare the Lead INED for their role. Topics that should be covered include the Lead INED's roles and responsibilities, the issuer's expectations for the Lead INED and guidelines on the disclosure of price sensitive / inside information. The Lead INED should be equipped through training or provided with appropriate support to enable them to engage meaningfully with shareholders and investors without disclosing material, non-public information.
43. The Lead INED designation is not intended to create a hierarchy among INEDs, nor does the Lead INED have a separate or higher level of liability relative to other INEDs. While a Lead INED may have specific roles and functions, they (as with all other directors) are subject to the same fiduciary duties in respect of the issuer and its shareholders.

Interaction between Lead INED, board chair, board committee chairs and IR function

44. The Lead INED should not duplicate other roles, and should instead complement and co-exist with, the roles of other board members and shareholder communication channels.
45. The board chair has overall responsibility for ensuring the effective functioning of the board and constructive shareholder communication. The Lead INED supports this by strengthening the effectiveness of the INEDs and facilitating a two-way dialogue with

investors. The Lead INED also serves as an independent contact point for sensitive issues to be raised on the board.

46. Each board committee chair oversees the work of their committee. The Lead INED may liaise with the chairs to understand how each committee has discharged its responsibilities. Each board committee chair and the Lead INED should attend the issuer's AGM to answer queries from shareholders.
47. While day-to-day investor communications is an investor relations (**IR**) function, the Lead INED can address more specific "asks" from investors by providing independent insight into the workings of the board. The IR function may provide guidance on the type of information that the Lead INED can disclose and accompany the Lead INED in his / her engagements.



Practical considerations for boards

- **Selection of Lead INED** – various factors should be considered, including the director's knowledge and understanding of the issuer, board dynamics and diversity, and their leadership and interpersonal skills. Issuers should not automatically appoint the longest serving INED as Lead INED without considering their suitability for the role.
- **Mechanics of Lead INED role** – issuers can consider designating joint Lead INEDs or having a rotation mechanism / tenure limit for the Lead INED. However, the Lead INED is not a position that should change on a frequent basis (e.g. annually), as the role should be held by an INED for a length of time that is sufficient to build the necessary relationships and skills.
- **Communication with Lead INED** – to facilitate communication, issuers may provide and disclose a designated communication channel with the Lead INED, for example, a dedicated mailbox.
- **Remuneration of Lead INED** – issuers should determine the appropriate level of remuneration for all directors based on their roles, including the Lead INED.
- **Time commitment of Lead INED** – issuers should ensure that the Lead INED is able to dedicate sufficient time to fulfilling his / her role and responsibilities, bearing in mind that his / her time obligations may increase during periods of heightened board or corporate activity.
- **Public disclosures in relation to Lead INED designation** –
 - Issuers should publish the roles and responsibilities of the Lead INED as agreed by the board.
 - Issuers should publicise any change in Lead INED designation as soon as possible through an updated list of directors and their roles and functions on the issuer's website and the Exchange's website.
 - Issuers may provide further disclosure on the INEDs' work done in the annual report, including how the Lead INED fulfilled his / her duties on areas including shareholder communication. Such disclosure could enhance INED accountability.

Board committees

Delegation of duties

48. While the board may delegate certain responsibilities to board committees, it retains ultimate responsibility for the issuer's corporate governance and should reach its own conclusions regarding the recommendations that it receives from the board committees. The core committees of the board are the nomination, audit and remuneration committees³³.
49. To perform its duties effectively, each board committee should:
- Have clear written terms of reference setting out its responsibilities and delegated authority.
 - Comprise of members with relevant expertise and experience.
 - Be provided with sufficient information and reasonable resources to carry out its role and functions.
 - Maintain clear communication channels with other board committees and the board.

Nomination committee

50. **Composition:** The nomination committee is chaired by the chair of the board or an INED and comprises a majority of INEDs³⁴. It should have at least one director of a different gender³⁵.
51. **Board recruitment:** The nomination committee's key role is board recruitment. It must assess the optimal composition of the board, taking into account the issuer's culture, strategies, objectives, the operation of the existing board and its collective skillset³⁶, and prepare a description of the role and capabilities required for a particular board appointment (e.g. skills, experience, expected time commitment) accordingly. The committee should consider different recruitment channels e.g. networking, recruitment agencies and board appointment platforms, and referrals from business acquaintances and peer industry circles. A fair and open recruitment process should be conducted to select the most suitable candidate to fill a board vacancy.
52. **Annual assessment of directors' time commitment and board contribution:** The nomination committee is responsible for conducting this assessment, which will help strengthen director accountability. Please refer to the section on the [Annual nomination committee assessment](#) for further details.
53. **Board skills matrix:** To focus the search effort for a new director, the board should develop a list of desirable skills, perspectives and experience at the outset of the selection process. Reference should be made to the board skills matrix, which the

³³ MB Rule 3.21 to 3.27C / GEM Rules 5.28 to 5.36C.

³⁴ MB Rule 3.27A / GEM Rule 5.36A.

³⁵ CP B.3.5.

³⁶ Principle B.3.

nomination committee helps to maintain. Please refer to the section on the [Board skills matrix](#) for further details.

54. **Board performance review:** The nomination committee supports the issuer's regular board performance reviews. It should use the findings from the reviews to inform its thinking on whether, and how, the board composition should be adjusted to optimise performance. Please refer to the section on [Board performance review](#) for further details.
55. **Board refreshment:** The nomination committee should be mindful of the need to refresh the board regularly to avoid entrenchment and attract fresh thinking.
56. **Succession planning:** The nomination committee must consider succession planning to ensure the long-term success of the issuer³⁷. A robust long-term succession plan considers the skills that the board currently has and is likely to need in the future. It also asks what professional and personal attributes may be missing from the boardroom. The committee should periodically review the succession plan as the needs of the company and the board may change over time.
57. **Nomination policy:** There should be an established policy on how potential directors can be identified³⁸. The director selection process should be rigorous, transparent and fair³⁹.



Practical considerations when formulating the nomination policy

- State the objectives of the policy. This should include ensuring the board has a suitable balance of skills, experience and diversity of perspectives relevant to the issuer's business and strategic objectives.
- Emphasise that the ultimate responsibility for appointment of directors rests with the entire board.
- Set out the procedure and criteria for the selection, appointment and re-appointment of directors. This should include the potential contributions a candidate can bring to the board in terms of qualifications, skills, experience, independence and diversity of perspectives. Issuers should consider a broad range of candidates in accordance with their diversity policy. The director search process should be fair and open.
- Board succession planning considerations and periodic reviews of the plan.
- The way in which the issuer will disclose its nomination policy and the progress made towards achieving the objectives therein (e.g. in the corporate governance report).
- A formal process for monitoring and reviewing the policy to ensure that it remains relevant to the issuer's needs and reflects current regulatory requirements and good corporate governance practice.

³⁷ Principles B.2 and B.3.

³⁸ CP B.3.4.

³⁹ Principle B.2.

Audit committee

58. **Composition:** The audit committee is chaired by an INED and comprises a majority of INEDs⁴⁰.
59. **Integrity of financial statements:** One important function of the audit committee is to monitor and assess the integrity of the issuer's financial statements, annual and interim reports and accounts⁴¹. It should critically consider any significant or unusual items reflected therein or raised by internal staff or the external auditor, and whether the financial reporting disclosures are consistent and transparent. The audit committee should hold thorough discussions with the external auditors at least twice a year regarding the review of the issuer's financial information.
60. **Monitor internal audit function:** The audit committee should ensure that the internal audit function (where such function exists) is adequately resourced and has appropriate standing within the issuer, and review and monitor its effectiveness⁴². "Adequately resourced" means that relevant staff have appropriate qualifications, experience, integrity and independence of mind.
61. **Oversight of risk management and internal controls:** The audit committee should review and monitor the issuer's risk management and internal controls (unless such duties are delegated to another committee). Its work includes discussing with management to ensure that management has performed its duty to implement and maintain effective systems; considering investigation findings on risk management and internal control matters; and reporting to the board.
62. **Work with management:** The audit committee must be proactive in understanding the affairs of the issuer and investigating any red flags that it has identified or been made aware of. The committee should form a good working relationship with management, who should explain to it the judgments of key assumptions underlying critical accounting estimates, as these can significantly impact the key balances in an issuer's financial statements.
63. **Engagement of external auditors:** The audit committee is responsible for making recommendations to the board on the appointment, re-appointment and removal of the external auditor, based on factors such as the auditor's ethics, knowledge, experience and capacity. It is also responsible for approving the remuneration and terms of engagement of the external auditor and handling any questions of its resignation or dismissal⁴³.
64. **Oversight of the issuer's relationship with the external auditors:** The following are suggestions on how the audit committee may achieve good oversight:
- Establish procedures to review and monitor the independence of the external auditors, which may include:

⁴⁰ MB Rule 3.21 / GEM Rule 5.28.

⁴¹ Principle D.3, CPs D.3.3(d) and (e).

⁴² MDR paragraph E(d)(i) and CP D.3.3(i).

⁴³ CP D.3.3.

- 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.
- Agree with the board the issuer’s policies on hiring employees or former employees of the external auditors and monitor 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.
 - Ensure that the external auditor’s provision of non-audit services does not impair its independence or objectivity. The audit committee is encouraged to consider:
 - 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.
65. **Disagreement with the board:** Where the board disagrees with the audit committee’s views on the selection, appointment, resignation or dismissal of the external auditor, the CG Code requires the issuer to explain this disagreement in the corporate governance report⁴⁴.
66. For further guidance on the terms of reference for an audit committee and its relationship with the external auditor, 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 IOSCO and the [“Guidelines for Effective Audit Committees – Selection, Appointment and Reappointment of Auditors”](#) published by the Accounting and Financial Reporting Council.

Remuneration committee

67. **Composition:** The remuneration committee is chaired by an INED and comprises a majority of INEDs⁴⁵.

⁴⁴ CP D.3.5.

⁴⁵ MB Rule 3.25 / GEM Rule 5.34.

68. **Advise on remuneration:** The remuneration committee assists and advises the board on the remuneration of the board and the senior management⁴⁶. It should formulate a clear remuneration strategy and policy, and a set of formal and transparent procedures to implement the policy. This should aim to motivate, retain and attract the best talent for the issuer to maximise shareholder value.
69. **Factors for consideration:** The remuneration committee should consider all aspects of remuneration, including⁴⁷:
- Salaries paid by comparable issuers, time commitment and responsibilities and employment conditions in the group.
 - The fairness of the appointment and termination terms for directors and senior management.
 - Compensation arrangements relating to dismissal or removal of 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.
 - Whether the remuneration package for an INED may affect their objectivity and independence.
70. **Disagreement with board:** 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.

Other board committees

71. The board may establish other board committees depending on the issuer's individual circumstances and business needs, for example, a corporate governance committee, a risk management committee and/or a sustainability committee.
72. **Corporate governance committee:** The board may set up a corporate governance committee to oversee the issuer's corporate governance policies and practices⁴⁸. A dedicated corporate governance committee may help ensure that an issuer devotes appropriate attention, time and resources to compliance issues. It is important for issuers to continuously tailor their compliance to evolving corporate governance standards to fit their own circumstances.
73. **Risk management committee:** The board may set up a risk management committee to oversee the issuer's risk management and internal controls framework, policies and systems (other than those which are overseen by the audit committee). The committee's work may include monitoring management's implementation of effective systems and considering investigation findings on risk management and internal control matters. The

⁴⁶ CP E.1.2.

⁴⁷ CP E.1.2.

⁴⁸ MDR paragraph E(d)(v) and Principle A.2.

committee should advise the board on significant business and regulatory risks (current and emerging); oversee the development of risk mitigation strategies; and make recommendations on the risk appetite, profile and tolerance of the group.

74. **Sustainability committee:** The board may form a sustainability committee to oversee the management of sustainability and ESG (including climate-related) issues. The committee's responsibilities may include overseeing the implementation of the group sustainability strategy; reviewing and monitoring sustainability reporting; assessing emerging sustainability trends, risks and opportunities that could impact the business operations and performance of the group; and reviewing the group's sustainability performance, including progress made against relevant goals and targets.

Company secretary

Role and functions

75. Company secretaries have a wide range of functions⁴⁹, including:
- Helping the issuer develop and maintain a sound and effective corporate governance framework and periodically reviewing whether its corporate governance processes are fit for purpose.
 - Keeping abreast of developments in laws, rules and regulations that may affect the issuer's business and operations, and briefing the board on these developments.
 - Managing the logistics of board and board committee meetings and ensuring that board and committee policies and procedures are followed.
 - Facilitating induction training and continuous professional development of directors.
 - Providing advice to the board and senior management on compliance and governance matters in their decision-making process.
 - Helping the board formulate and foster a robust compliance culture to meet both regulatory and investor expectations and helping ensure that good governance practices and culture are upheld by the company.
76. Company secretaries also serve as a crucial conduit of communication between:
- **The board and the management:** The company secretary facilitates good information flow by, on one hand, updating the chief executive officer and the board (including INEDs) on the information provided by senior management, and on the other hand, conveying the board's decisions to senior management.
 - **The issuer and its shareholders:** The company secretary ensures a good channel of communication through emails or at the issuer's general meetings.

⁴⁹ Principle C.6.

- **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 senior management and assist in responding to the regulator in a timely manner.

Selecting the company secretary

77. Company secretaries should possess technical knowledge (which may include knowledge in company and securities laws, accounting and finance, governance, tax obligations and company secretarial matters); and specialised skills and experience regarding corporate governance, internal control and regulatory compliance. They should also have the relevant qualifications and competence to effectively discharge the duties required. Note 1 to Main Board Rule 3.28⁵⁰ sets out a list of academic or professional qualifications acceptable to the Exchange. Please also refer to Guidance Letter [HKEX-GL108-20](#) published by the Exchange for further guidance.

External service provider as company secretary

78. If the board engages an outsourced professional or an external service provider as its company secretary, it must ensure that such outsourced professional or external service provider has the resources to closely follow the issuer's daily affairs so that it can perform its duties properly.
79. An issuer that engages an external service provider as its company secretary should consider and take appropriate steps to mitigate the following potential issues:
- The external service provider may not have day-to-day knowledge of the issuer's affairs.
 - There may be time gaps in communication, particularly where the matter is time sensitive (e.g. the Exchange's enquiries to the issuer on potentially price sensitive market rumours).
 - The external service provider may be acting as company secretary for a large number of issuers, which may affect its ability to devote sufficient time to the issuer's affairs.
80. Where an issuer engages an external service provider as a company secretary, it should designate a senior executive (e.g. chief legal counsel or chief financial officer) as a contact person to work closely with the external service provider⁵¹.
81. For more guidance on the company secretary's role and functions and the recommended maximum number of company secretary appointments, please refer to the "[Company Secretarial Appointment Guidelines](#)" published by The Hong Kong Chartered Governance Institute.

⁵⁰ GEM Rule 5.14.

⁵¹ MDR paragraph F(a) and CP C.6.1.

Chapter 2 – Board Effectiveness

An effective board is key to an issuer’s long-term success. The board’s ability to work effectively may be influenced by different factors, including: (i) whether the board leads by example and shapes the desired culture to support the company’s purpose, values and strategy; (ii) whether the board maintains the right mix of skills and qualifications for the pursuit of issuer’s strategic objectives; and (iii) whether the board actively engages with stakeholders to ensure constructive feedback is considered in the board’s decision-making.

Company culture

What is a desired corporate culture

1. An issuer’s corporate culture needs to be aligned with its purpose, values and strategy. As these aspects are different for each issuer, there is no “one size fits all” approach in developing a desired culture. A good starting point is for an issuer to consider what its purpose is and to define that purpose clearly. A clear purpose will assist the issuer’s formulation of its objectives and goals. It will also facilitate the identification of important values that shape how the issuer will go about achieving its objectives. The issuer’s values, attitudes and behaviours, as demonstrated in its operations and relationships with stakeholders, define its “corporate culture”.
2. Formulation of clear operational, reporting and compliance objectives that facilitate a viable and sustainable operation in compliance with applicable laws and regulations lays the foundation for a healthy corporate culture. Objectives that go beyond profitability and take into account the interests of stakeholders (including employees, customers and the wider society) help build trusted relationships with stakeholders. A strong commitment to integrity and ethics will also drive appropriate risk management and internal controls systems.

The board’s role

3. The board is responsible for setting the right “tone from the top” to shape a desired corporate culture. The board’s role includes⁵²:
 - **Defining a purpose supported by culture:** An effective board sets and defines the issuer’s purpose, values and objectives, and ensures that these and its culture are aligned.
 - **Promoting a business model that reflects the desired culture:** Ensuring that the desired corporate culture is manifested in the issuer’s business model, operations and practices.

⁵² Principle A.1 and CP A.1.1.

- **Communicating the desired culture:** The board is responsible for shaping the desired culture and ensuring that it is communicated appropriately to all levels of staff. For effective communication, the board should work with management to, for example, implement a code of conduct and conduct regular training and townhalls.
- **Incentivising compliance and accountability:** The board must embed a robust culture of compliance and should, itself, demonstrate a high degree of accountability and integrity, with senior personnel being held accountable for their actions. An effective remuneration and performance management mechanism can support and drive desired behaviours and motivate employees to act in accordance with the desired culture. Remuneration and rewards (both long- and short-term) should be assessed with reference to the desired culture.
- **Talent management and development:** Talent management (including hiring decisions, rewards / remuneration and succession planning) and talent development should be aligned with the issuer's desired culture. Understanding the issuer's culture is critical for employees and should be reflected in their development plans. The board should work with management and internal departments, such as human resources, to adopt an appropriate policy / code of conduct to guide the desired behaviour of employees.
- **Regular evaluation of culture:** The board should ensure that new directors understand the issuer's culture and its alignment with the issuer's purpose, values and strategy. The board should continuously monitor and evaluate the implementation of the desired culture, and whether it is reflected throughout the issuer's operations. Continuous evaluation (with adaptation where necessary) ensures that the issuer's culture remains appropriate to its circumstances in the midst of a changing business environment. The evaluation process should be transparent to enhance accountability.

The board should be ready to challenge and address any identified misalignment with the desired culture during its implementation. As part of its evaluation, the board may:

- i. Review the company's decisions and actions to assess whether they are consistent with the desired culture and the issuer's objectives.
- ii. Undertake staff and stakeholder engagements to understand their perception of the issuer's culture.
- iii. Assess complaints received, whistleblowers' disclosures, staff turnover rate and code of conduct / regulatory breaches to help identify potential areas of concern.

Role of senior and middle management

4. An issuer's senior management should convey the board's messages and desired culture to middle management and the rest of the company. Management should communicate a clear direction to their direct reports through effective and timely engagement. Management is responsible for implementing the board's direction on corporate culture, for example through talent management and regular training to enable

all levels of staff to better understand the issuer's desired culture and how it supports the issuer's purpose, values and strategy, and to ensure the issuer's operation is aligned with its desired culture.

Disclosure requirements

5. When evaluating a company, stakeholders take into account its corporate culture. To enhance transparency and increase stakeholders' trust, issuers should provide meaningful disclosure on culture and refrain from boilerplate language (e.g. a generic description of the overall corporate governance approach) that fails to properly connect corporate culture to their long-term goals.
6. In their disclosure on corporate culture, issuers should cover the following:
 - **Description of desired corporate culture**, referencing and linking this to the issuer's purpose, values and long-term operational, regulatory and reporting objectives.
 - **Communication of desired corporate culture**: the measures in place to ensure that the desired culture is understood within the company (e.g. through regular training, code of conduct etc.) and communicated to stakeholders via effective channels.
 - **Implementation of desired corporate culture**: the commitment of suitable and sufficient resources to support successful implementation (e.g. trained human resources, effective financial (e.g. remuneration) and non-financial incentives).
 - **Evaluation of implementation of desired corporate culture**: the measures used to assess and monitor the adoption of culture and its impact on the company's performance (e.g. by reference to key performance indicators (e.g. revenue growth, profit margins, return on equity, market share) and non-financial indicators (e.g. staff turnover rate, complaints, employee survey results, code of conduct and regulatory breaches). The disclosure should cover how misalignment or deviations (e.g. staff misconduct) are identified and dealt with.
 - **Accountability**: how the board and management are held accountable for their actions.

Board performance review

Performance review process

7. The CG Code provides issuers with flexibility in terms of how to structure and implement regular board performance reviews that fit their individual circumstances. Issuers should consider whether the complexity of their operations or recent changes (e.g. change of business model, business expansion) may require more frequent reviews than are required under the CG Code (once every two years⁵³).

⁵³ CP B.1.4.

8. The performance review process should be sufficiently robust and involve the board directly, with views and feedback also coming from stakeholders beyond the board (e.g. shareholders, senior executives, auditors and other advisers who interact with the board on a regular basis, as well as other employees). The process should be confidential to allow candid feedback to be provided.
9. In assessing whether the board's performance effectively supports the issuer's broader objectives, the performance review should identify the board's strengths as well as weaknesses / gaps. Measures to address the gaps identified could include, for example, training initiatives to upskill existing directors and / or the identification of criteria for board refreshment.
10. Issuers should make use of a board skills matrix (please see the section on [board skills matrix](#)) to assess alignment of skills and experience with the issuer's strategic objectives.
11. Performance review findings may facilitate the issuer's nomination process (e.g. past evaluations may provide insights for subsequent recommendations on the re-election / re-nomination of directors).

Review by whom – internal or external reviewers?

12. Issuers can decide whether the board performance review should be conducted (or facilitated) externally, or organised and conducted internally.
13. Internally conducted reviews can draw on internal industry knowledge and familiarity with the issuer's business, and can be conducted in a cost-effective manner. However, the absence of an independent external reviewer may potentially compromise the objectivity and thoroughness of the review process.
14. External reviews generally have the advantage of the external reviewer's impartiality and expertise (e.g. the external reviewer may be able to provide references against the issuer's peers and facilitate benchmarking). This safeguards the integrity of the review process and can provide valuable insights. The transparency of the external review process may also be higher.
15. The board should carefully consider whether relying on an internally conducted review would be sufficient. In particular, issuers with more complex business operations that have changed or expanded their business model should consider the benefits of an external review.
16. Issuers may also consider involving an external reviewer to assist in the design of the review process and the assessment of the review findings – such an approach may enable the issuer to minimise cost to gain valuable external insights. Alternatively, issuers may start by conducting the performance review internally and, should the need arise, engage external expertise in future reviews.

Performance review scope: assessment criteria

17. The focus of the board performance review is on the overall performance of the board and the existing skills, expertise and qualifications of the board as a whole, and is not intended to be a personal assessment of individual directors.
18. There should be a set of assessment criteria that enable an evaluation of the overall effectiveness and efficiency of the board. While each review is specific to the board at the time of the review, its findings could inform decisions on board refreshment and succession planning going forward.
19. The table below sets out a non-exhaustive list of areas issuers may consider when determining the criteria for the performance review – issuers should adjust and adapt them to fit their specific needs.

Table 2: Assessment criteria for board performance review

| Criteria | Aspects to be reviewed |
|---|--|
| Board composition and skills | <ul style="list-style-type: none"> • Whether the board has an appropriate mix of skills, expertise, experience, backgrounds and diversity to deliver the issuer's strategic objectives and meet the challenges of today's fast-moving world and emerging areas of concern (e.g. geo-political tensions; changing regulations; evolving artificial intelligence technology) • Board refreshment / succession plans • Whether the board has anticipated any planned changes to the issuer's business objectives and assessed the need to acquire further skills or qualifications |
| Board culture and dynamics | <ul style="list-style-type: none"> • Whether the board's values and behaviours align with the company's goals and objectives, and are conducive to effective governance and decision-making • How well do the directors communicate and work together • Quality of key working relationships (e.g. board chair / chief executive officer, board / management) • Quality of strategic discussions and decision-making on the board |
| Board practices | <ul style="list-style-type: none"> • Whether the current board practices (e.g. agenda setting, governance practices, board committee structure) are fit for purpose and whether any improvements are required for the effective functioning of the board |
| Quality and timeliness of information to the board | <ul style="list-style-type: none"> • The quality and timeliness of the information provided to the board (e.g. by the management) on the company and its performance • Whether board papers and necessary materials are delivered in a timely manner to facilitate adequate preparation before meetings |

| | |
|--|--|
| Board meetings | <ul style="list-style-type: none"> • Whether board meetings are effectively conducted so as to fulfil their intended purposes |
| Compliance and training | <ul style="list-style-type: none"> • Whether the board adheres to applicable legal and regulatory requirements • Whether directors' developmental and training needs are adequately supported |
| Risk management and internal controls | <ul style="list-style-type: none"> • Whether the board allocates sufficient time and attention to discuss and manage risk • Whether the board has adequate processes in place for identifying and reviewing risks, and for overseeing the issuer's risk management and internal controls systems |
| Stakeholder engagement | <ul style="list-style-type: none"> • How the board communicates with, listens and responds to shareholders and other key stakeholders • How stakeholder feedback is reflected in the board's discussions or decision-making |

20. Issuers may also consider (i) assessing individual directors or particular board committee(s) as part of the review, or (ii) conducting a review that is focused on a particular transaction, which may help provide more specific insights into how particular aspects (e.g. board dynamics, quality and timeliness of information to the board) worked in the context of that transaction.

Disclosure requirements

21. To enhance transparency and increase investor confidence in the board's continued effectiveness, issuers should disclose sufficient information in their corporate governance reports on their board performance review (i.e. review scope, mode, methodology and findings)⁵⁴. The information should include any identified key aspects of the board's performance which merit improvement (e.g. additional skills for the board to acquire) and the measures taken or planned to address the findings.
22. Issuers can consider combining their disclosure on the board performance review with that on the board skills matrix.
23. If issuers have not conducted a board performance review during the relevant reporting period, they should state this and indicate when the next review will be conducted⁵⁵. During the gap year between reviews, issuers may disclose related actions taken during the reporting period (e.g. remedial actions taken in response to the findings from the prior review, or the assessment of priority areas / desired performance objectives for the next review).

⁵⁴ CP B.1.4.

⁵⁵ CP B.1.4.


Board skills matrix

Purpose

24. A board skills matrix should display the board's collective experience, skills, qualifications and expertise, and connect these with the issuer's long-term strategy and particular goals, including its diversity targets. While the matrix is not intended to single out individual directors, it should allow shareholders and other stakeholders to understand the mix and adequacy of the board's skills and assess the alignment with the issuer's objectives.
25. This mapping exercise enables the issuer to identify, in particular, any gaps in existing board skills for the purpose of any planned expansion or change in the issuer's objectives. This provides useful insights to the nomination committee (or the board) to consider board refreshment and succession planning, or any enhancement of the existing skills and qualifications of the board.

Disclosure requirements (with example skills matrix)

26. While no format is specified for the disclosure of the board skills matrix⁵⁶, issuers should refrain from simply replicating information that is already contained in the directors' biographies. Meaningful disclosure should include: (i) the existing skills mix of the board; (ii) how the combination of skills, experience and diversity of the directors serves the purpose, values, strategy and desired culture of the issuer; and (iii) details and plans of the board to acquire further skills (if any).
27. Issuers may refer to the example board skills matrix below (provided for illustration purposes):

|  Table 3: Example board skills matrix | | | | |
|---|---|--------------------------|------------------------|---------------------------------------|
| Skills Area | Description (Note (b)) | Importance (Note (c)) | Adequacy (Note (d)) | Plans to address gaps / expand skills |
| Strategy | Ability to identify strategic opportunities and threats, whilst developing and implementing plans to achieve corporate objectives | | | |
| Leadership | Ability to lead corporate teams and implement plans and policies | | | |

⁵⁶ CP B.1.5.

| | |
|--|---|
| Industry knowledge and experience (Note (a)) | Understanding of the company's business daily operations, market development, competitors, technology and innovation |
| Financial literacy / business acumen | Ability to read and comprehend corporate accounts, financial materials and financial reporting requirements |
| Risk management and compliance | Ability and experience in implementing, managing or overseeing risk management and internal control systems for legal and regulatory compliance |
| People management experience | Experience at a senior level with responsibilities for people management and successful implementation of change |
| Diversity (e.g. age, gender, culture) | Contribution to board diversity in terms of age, gender, cultural background etc. |
| Emerging topics (e.g. artificial intelligence) | Understanding and knowledge of emerging topics to ensure that the company is forward-thinking |
| Qualifications | Formal qualifications in relevant fields to assist the board in its decision-making, for example, accounting / finance, economics / business, law |

Notes:

- (a) The relevant knowledge and experience should relate to, and be assessed against, the issuer's business objectives.
- (b) The description should enable stakeholders' understanding of the nature and scope of the skills concerned.
- (c) The explanation should enable stakeholders' understanding of the importance and relevance of the skills concerned to the issuer's business. For example, such an explanation may be aided keys defined as follows:
- “E” = essential skills that should currently be in the board's possession
“F” = skills that should be acquired for future purposes / in light of anticipated emerging needs
A/D = skills that are not necessary but desirable or aspirational in nature
- (d) Reviews should assess whether the existing level of expertise of a particular skill / qualification is deemed adequate (to be measured against the issuer's business needs / long-term objectives).

Director training

Annual director training

28. It is mandatory for all directors of issuers on the Exchange to undergo annual director training⁵⁷. The Exchange has specified five topics that annual director training must cover, as a minimum.
29. There are no specific requirements on the format and providers of the training – such flexibility ensures that training can be tailored to suit directors' personal development needs as well as their schedules and the issuer's available resources.
30. Director training can take various forms, including: in-person training; online webinars by an external provider; training arranged in-house by the issuer (e.g. through the company secretary); and reading articles or watching videos on the specified topics.
31. Director training must be of sufficient quality to adequately support directors' development of their knowledge and expertise. The required disclosure of further details on the different modes of training that directors undertake (i.e. external, internal or self-study) enables investors to better understand and assess the training that directors have received.
32. Directors should consider the appropriate mode of training for each specified topic. While internal training may be more relevant or appropriate for certain industry or issuer-specific topics, training on topics such as the regulatory and legal responsibilities of boards and directors may be better delivered by expert external training providers.
33. While there is no prescribed minimum number of training hours for annual director training, directors should consider their personal training needs and receive sufficient training to equip them to properly discharge their duties. As a reference, the minimum training hours required for members of industry associations (e.g. The Hong Kong Institute of Directors or The Hong Kong Chartered Governance Institute) and professional bodies (e.g. The Hong Kong Institute of Certified Public Accountants and The Law Society of Hong Kong) range from 10 to 20 training hours per year.

First-time Director training

34. Directors who take on their first board appointment at a listed issuer must ensure that they sufficiently familiarise themselves with the legal and regulatory requirements of their roles and obtain relevant knowledge to contribute to the board effectively. Similarly, directors that have previously served on the board of a listed issuer, but not held an appointment for some time, require training to ensure that their pre-existing knowledge is sufficiently refreshed. The Exchange mandates the completion of a minimum number of training hours for such directors following their appointment to a listed issuer in Hong

⁵⁷ MB Rule 3.09F / GEM Rule 5.02F.

Kong⁵⁸, which is separate from and additional to the general induction training that newly appointed directors should receive.

| Type of First-time Director | Minimum training hours requirement |
|--|--|
| (A) A director who is appointed as a director of an issuer listed on the Exchange for the first time (i.e. has no prior experience as a director of an issuer listed on the Exchange) | 24 training hours within 18 months of appointment |
| (B) A director who has not served as a director of an issuer listed on the Exchange within the three years prior to his / her appointment (i.e. whose previous directorship of an issuer listed on the Exchange does not fall within the three years prior to his / her appointment) | 24 training hours within 18 months of appointment |
| (C) A First-time Director (either type (A) or (B) above) with directorship experience in an issuer listed on other exchanges within the three years prior to his / her appointment | 12 training hours within 18 months of appointment to a board of an issuer listed on the Exchange |

35. If a First-time Director resigns prior to the completion of the mandatory minimum training hours for First-time Directors, their responsibility to complete the First-time Director training would not have been fulfilled and would remain applicable to any subsequent director appointment. On such subsequent appointment, training received from the previous appointment can count towards that director's minimum training hours requirement for First-time Directors, provided that their subsequent appointment occurs within three years from the termination of their first appointment⁵⁹.

Specified training topics

36. Under the Listing Rules, mandatory director training, whether for existing directors or First-time Directors, has to cover all of the following five specified topics, as a minimum⁶⁰:
- (1) **Board and directors' duties** – to enable directors to better understand the board's and directors' roles and duties.
 - (2) **Listing Rules and Hong Kong law compliance** – to enable directors to procure the issuer's Listing Rule compliance and to enhance their understanding of applicable laws in Hong Kong.
 - (3) **Corporate governance and ESG** – to refresh and expand directors' understanding of such matters (including developments on sustainability and climate-related matters) corporate governance and ESG.

⁵⁸ MB Rule 3.09H / GEM Rule 5.02H.

⁵⁹ Note 2 to MB Rule 3.09H / Note 2 to GEM Rule 5.02H.

⁶⁰ MB Rule 3.09G / GEM Rule 5.02G.

- (4) **Risk management and internal controls** – to enhance directors’ understanding of the relevant scope and requirements for effective risk management and internal control systems, and the board’s responsibilities for the same.
- (5) **Industry and business updates** – to enable directors to further their knowledge of industry and business updates relevant to the issuer that they serve.
37. Directors are expected to refresh their knowledge of key areas at reasonable intervals, for example, directors’ duties, notifiable and connected transactions, conflict of interests and the latest requirements under the Corporate Governance Code.
38. Directors are encouraged to engage in training beyond the scope of the specified topics as this may help them develop expertise in areas that the board may not currently possess. This demonstrates the board’s commitment to expanding its existing skills and qualifications.
39. The table below illustrates how certain types of training / experience may count towards the mandatory training requirements for First-time Directors and all directors:

Table 4: Illustration on mandatory director training requirement

| | First-time Directors | All Directors, including First-time Directors |
|---|---|---|
| | 12 or 24 hours within 18 months <i>Note 1</i> | No minimum training hours |
| | Count towards 12 or 24 hours? | Count towards mandatory annual training? |
| Training received as a director of an issuer listed on other exchanges <i>Note 2</i> | ✓ | ✓ |
| Training received as a director of other Exchange listed issuers <i>Note 3</i> | ✓ | ✓ |
| CPD training received as members of other organisations / professional associations <i>Note 4</i> | ✓ | ✓ |

Notes:

Note 1: see paragraph 34 above regarding the minimum training hours requirement for First-time Directors.


Note 2: provided that such training covers the specified topics in the Listing Rules. Directors should also obtain sufficient training on Hong Kong-specific requirements.

Note 3: provided that such training is not issuer-specific.

Note 4: provided that such training covers the specified topics in the Listing Rules.

Disclosure requirements

40. Together with the disclosure on the board's existing qualifications and skills (please see the section on [board skills matrix](#)), meaningful disclosure on the training undertaken by the board enables stakeholders to better understand the board's ability to discharge its duties to support the issuer in achieving its long-term objectives.
41. Disclosure on director training should cover for each director⁶¹:
- (1) The total number of training hours completed during the reporting period.
 - (2) The nature of each training attended, including:
 - a. format (e.g. internal training, external training, self-study);
 - b. topic (to confirm that the specified training topics were covered);
 - c. duration; and
 - d. training providers (in particular, whether the training was delivered by a professional provider or in-house).
 - (3) Where the director is a First-time Director, an indication as to whether the director has completed the mandatory minimum training hours during the reporting period. Where the First-time Director has not yet completed the required training, the issuer should disclose the remaining number of training hours to be completed by the director in the next reporting period. Where the First-time Director has completed the required training, the issuer should include a statement confirming completion of such training.
42. There is no prescribed format of disclosure on director training. Issuers may refer to the table below for an illustrative example on how the relevant information may be disclosed. Issuers should include explanatory notes to enable a better interpretation of the training records of individual directors.

|  Table 5: Example disclosure on directors' training by topic | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|--------------------|
| Directors | [Topic 1] | [Topic 2] | [Topic 3] | [Topic 4] | [Topic 5] | Total no. of hours |
| [Director A] | | | | | | [•] |
| [Director B] | | | | | | [•] |
| [Director C] | | | | | | [•] |

⁶¹ MDR paragraph B(i) of the MB CG Code / MDR paragraph B(j) of the GEM CG Code.

Note: Include the individual number of training hours received on each training topic by each director in the coloured circles. Where a director receives training in different formats on the same topic, this should be indicated by setting out the applicable coloured circles for the relevant topic against the relevant director's name.

- [Note: training in format type I (e.g. internal training, with examples / descriptions of the training received)]
- [Note: training in format type II (e.g. external training, with examples / descriptions of the training received)]
- [Note: training in format type III (e.g. self-study, with examples / descriptions)]
- [Note: any other form of training received (e.g. attending industry event as speaker or panellist)]

43. Each director should provide the issuer with updates, and supporting documents, on the training they attended during the reporting period⁶². The issuer should put in place a system to record and retain that information to facilitate detailed and accurate disclosure on each director's training record.

Shareholder engagement

Shareholder communication policy

44. Having a shareholder communication policy in place helps to maintain an effective, two-way dialogue with shareholders, to whom the directors of an issuer are accountable. Issuers are required to review that policy's implementation and effectiveness on an annual basis⁶³. The conclusion from the annual review should be disclosed, together with any actions taken (or to be taken) following such a review.
45. Effective communication with shareholders can bring constructive feedback to the board's decision-making process. The board's proactiveness, as well as how such feedback is reflected in the board's discussions or decision-making, should form part of the periodic board performance review assessments.

Communication channels

46. There are different ways in which issuers can communicate with shareholders. Issuers should set out the communication channels available to shareholders to express their views on matters affecting the issuer, as well as the steps taken by the issuer to solicit and gauge the views of the shareholders and other key stakeholders.
47. Ways in which issuers may enhance shareholder communication include, but are not limited to:
- Appointing one of the INEDs to be the Lead INED (see below).
 - Appointing a suitably qualified senior investor relations officer or establishing a designated investor relations function with access to the board.

⁶² Principle C.1.

⁶³ MDR paragraph L(b) and (c).

- Formalising periodic meetings with shareholders. Such meetings may, depending on the issuer's circumstances, include investor and analyst briefings, shareholder roundtables or webinars (which may enable issuers to engage with particular groups of investors in a smaller setting).
 - Enhancing disclosure of the contribution or work done during the year by INEDs and the Lead INED (if there is one) in the annual report, including quantitative metrics of their engagement with independent shareholders.
48. To strengthen accountability and transparency, issuers are required to provide details of the board's engagement with shareholders, including the nature and number / frequency of such engagements, the group(s) of shareholders and issuer representatives involved, and the issuer's approach to following up on the outcomes of these engagements⁶⁴.
49. Issuers are encouraged to disclose the major areas of interest for investors and the issuer's strategy / key areas of focus in relation to the management of key stakeholder relationships during the reporting period. Such disclosure may be included in the issuer's annual report, website and announcements issued pursuant to the Listing Rules. Examples of areas or topics that shareholders may be particularly interested in include the following:
- **INEDs' contribution or work done** during the year (including that of the Lead INED).
 - **INEDs' engagement with shareholders**, particularly independent and minority shareholders (e.g. number of meetings held during the year and the focus of such meetings).
 - **Key appointments to the issuer's board** during the year and impact.
 - **Board performance review** (e.g. findings from review conducted during the reporting year and related actions taken by the board during the gap year between reviews, such as the assessment of priority areas / desired performance objectives for the next review).
 - **Key transactions**, including notifiable and connected transactions during the year.
 - **Dividend policy and related decisions** during the year.
 - **Capital management strategy**, including measures planned or taken to improve the issuer's valuation.
 - **Business outlook**, substantiated by short- and long-term plans and strategies devised and / or implemented during the year.

⁶⁴ MDR paragraph L(d) and CP F.1.1.

Lead INED

50. Issuers, in particular those where the board chair is not an INED, are strongly encouraged to designate one INED as a Lead INED⁶⁵.
51. As a designated contact point, the Lead INED can help facilitate and strengthen communication with shareholders (in particular, minority shareholders). Through its engagements, the Lead INED can develop a balanced understanding of key stakeholder views and concerns and convey the same to the board. Please refer to the section on the [Lead INED](#) for further details on the roles and functions expected of a Lead INED.

Dividend policy and related disclosure

52. Investors look to issuers for full transparency regarding their dividend policies and decisions on capital allocation.
53. To improve transparency, issuers are required to disclose information regarding their dividend policy (e.g. the key factors that the board will consider when making a dividend decision) or else explain why they do not have a dividend policy⁶⁶.
54. Shareholders should also be provided with the details necessary to enable them to better understand the board's dividend decisions⁶⁷ (e.g. where no dividend was declared, the reasons for that decision and the measures (if any) that the issuer intends to take to enhance investors' return). Where their dividend decisions are subject to any regulatory oversight, issuers are encouraged to state this.
55. Issuers are encouraged to enhance their capital management efforts to improve shareholder value, and to go beyond the required disclosure in the Listing Rules by providing insight into their wider capital allocation policies and strategics, including their policy on share buy-backs and share cancellations.

⁶⁵ RBP C.1.8.

⁶⁶ MDR paragraph M.

⁶⁷ MDR paragraph M.

Chapter 3 – Diversity

- Diversity is an important driver of board effectiveness and quality decision-making. A high-performance board should have an appropriate balance of skills, experience and diversity of perspectives.
- Issuers are encouraged to adopt an inclusive mindset and consider different aspects of diversity - including but not limited to gender, age, cultural and educational background, and professional experience.

Board diversity ^ك

Gender diversity on the board

1. Issuers are required to have at least one director of a different gender on the board⁶⁸. An issuer that fails to comply with this requirement (for example, where the sole director of a different gender resigns) must immediately publish an announcement containing the relevant details and reasons⁶⁹. That issuer must then appoint appropriate member(s) to the board to re-comply with such requirement within three months after failing to meet it.
2. Issuers should continue to assess their own circumstances and needs; and strive to commit to gender diversity targets beyond the required minimum of one.

Role of the nomination committee

3. Issuers should have at least one director of a different gender on the nomination committee⁷⁰. A nomination committee comprising members of diverse backgrounds and perspectives can help reduce cognitive biases, expand the committee's connections for recruitment purposes, and promote greater diversity in the boardroom.
4. The director nomination process should be appropriately structured so that a diverse range of candidates are considered. There should also be transparency in the consideration of diversity during such a process.
5. The nomination committee should use the [board skills matrix](#) and the [periodic board performance reviews](#) to assess the mix of competencies and diversity on the board, identify whether there are any gaps in the board's collective skillset, and formulate and/or revise the issuer's succession plans accordingly. It should take a holistic and strategic view of the closely linked issues of board composition, diversity commitments and succession planning.

⁶⁸ MB Rule 13.92(2) / GEM Rule 17.104(2).

⁶⁹ MB Rule 13.92(2) / GEM Rule 17.104(2).

⁷⁰ CP B.3.5.

6. To learn more about the role of the nomination committee, please see the section on [Nomination Committee](#).

Diversity policy

7. Issuers should integrate diversity into their strategies and operations. Efforts to promote greater diversity and inclusion should extend beyond the boardroom to senior management and the wider workforce. Issuers are encouraged to consider different aspects of diversity - including but not limited to gender, age, cultural and educational background, and professional experience.
8. The Listing Rules require issuers to have and disclose a diversity policy for the board and the workforce (including senior management) ⁷¹. The diversity policy can be a standalone document, or it can form part of an issuer's other firmwide / organizational document.
9. The board diversity policy should include measurable objectives (e.g. numerical targets and timelines) for the promotion of board diversity. The board is required to monitor the implementation of the policy and review it annually to ensure it remains fit for purpose. An annual review is required even if an issuer has achieved its current diversity objective.
10. Having a workforce diversity policy in place can assist issuers to set targets and objectives across the entire company, not just at the board level, and support the development of a diverse pipeline for succession. Since the demographics in a particular industry or country where an issuer operates may make it more challenging to formulate diversity targets at a workforce level, there is no requirement for issuers to set measurable objectives for workforce diversity.
11. Issuers are required to disclose the gender ratios of their (i) senior management and (ii) workforce (excluding senior management). For the workforce gender ratio, issuers may disclose by categories of employees e.g. by level (middle management and rank and file), and/or by function (technical, administrative, or production) ⁷².

⁷¹ MB Rule 13.92(1) / GEM Rule 17.104(1) and MDR paragraph J.

⁷² MDR paragraph J(c).



Practical considerations when formulating a diversity policy

- 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 directors and 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 is considered.
- Focus on the development of a diverse pipeline - identify and implement programmes that will assist in building a broader pool of skilled and experienced employees for future senior management and board positions, and report on the outcome of such programmes (e.g. their impact on improving diverse representation at the more senior levels).

Setting targets and objectives

Board level

12. Examples of diversity targets beyond the required minimum of one director of a different gender on the board include: (i) achieving specific numerical targets for the proportion of women on the board and in senior executive roles within a specified timeframe; and (ii) applying diversity targets to the key committees of the board.
13. Where an issuer revises a diversity target or deadline, or a new circumstance arises that makes it difficult for an issuer to fulfill their stated diversity commitments, the issuer should provide a reasoned explanation in the corporate governance report and set out its revised target or deadline.

Workforce level

14. While it is not mandatory for issuers to set measurable objectives for workforce diversity, when establishing their workforce diversity policy, issuers are encouraged to focus on how they can better improve diversity and inclusion beyond the boardroom.

Useful resources

15. Please refer to the Exchange's [Board Diversity Hub](#) for more resources on diversity and inclusion, including thought leadership publications, board diversity statistics, and practical tips for issuers and potential board candidates.

Chapter 4 – Risk Management and Internal Controls

- Risk management and internal controls are important safeguards that enable an issuer to achieve its operational, reporting and compliance objectives. There is, however, no “one-size-fits-all” approach in terms of putting in place and maintaining an effective system of risk management and internal controls - each issuer has to first identify its strategic objectives, consider relevant risks to achieving these objectives and then create a system that is appropriate for the issuer’s individual risk profile and circumstances.
- As an issuer’s business, and its risk profile, may change over time, it should monitor its risk management and internal control systems on an ongoing basis and conduct periodic reviews of the systems’ effectiveness.

Roles and responsibilities

Role of the Board

1. Under the Listing Rules, the board is ultimately responsible for the issuer’s risk management and internal controls⁷³. Effective risk management and internal controls start with the board setting the appropriate “tone from the top” and instilling a commitment to compliance and ethics in the issuer’s culture and operations.
2. The board should set clear objectives for the issuer, identify existing and emerging risks for such objectives and determine the level of risks it is willing to accept in the course of pursuing the issuer’s objectives. Based on this analysis and the issuer’s risk tolerance, the board can then work with the issuer’s management on the establishment and maintenance of appropriate and effective risk management and internal control systems. In addition, the board should ensure that its approach to risk tolerance has been properly communicated throughout the organization.
3. While the board may delegate certain aspects of its work to management and relevant departments (e.g. internal audit) or external providers (e.g. internal control consultants), proper oversight over the design, implementation and operational effectiveness of the risk management and internal control systems is ultimately the board’s responsibility.
4. The board should monitor the issuer’s risk management and internal control systems on an ongoing basis. A review of the systems’ effectiveness should be conducted at least annually⁷⁴. For each reporting period, the board should provide a statement in the corporate governance report that acknowledges its responsibility for the issuer’s risk

⁷³ MDR paragraph H(a) and Principle D.2.

⁷⁴ MDR paragraph H.

management and internal control systems and confirms that these systems remain appropriate and effective⁷⁵.

Role of the Management

5. While the board takes the lead in establishing the issuer's risk management and internal controls systems, it is the responsibility of the management to design and implement that system and ensure it is operating effectively on a day-to-day basis⁷⁶. To facilitate the board's oversight, the management should provide the board with relevant information and periodic confirmation as to the implementation and effectiveness of risk management and internal control systems.
6. Management's role includes designing and implementing an appropriate framework for the systems consisting of relevant policies and procedures; and the appropriate delegation of roles, responsibilities and authority among the issuer's departments and staff (and involved external providers).
7. The framework should include appropriate structures and procedures for the ongoing monitoring and regular review of the operational effectiveness of risk management and internal control systems. The management should provide regular reports to the board on progress and timely updates on any issues identified so that the board can exercise its own supervision and oversight.

Role of the Audit Committee

8. The audit committee shares responsibility for the oversight of the issuer's risk management and internal control systems (unless such oversight is expressly allocated to another board committee (e.g. risk committee))⁷⁷.
9. The audit committee should seek discussions with management to ensure the existing internal control systems remain appropriate and effective. The audit committee should also consider major findings on risk management and internal control matters and management's response to these findings. The audit committee should ensure that it reports its findings to the board from time to time and elevates any concerns for the whole board's consideration as appropriate.
10. The board should ensure that the audit committee has sufficient resources and is provided with relevant and timely information to perform its duties in relation to the oversight of the issuer's risk management and internal control systems.

⁷⁵ MDR paragraph H(a).

⁷⁶ Principle D.2.

⁷⁷ CP D.3.3(f).

Risk management

Risk identification and assessment

11. An issuer's risk management closely interacts with the operational, reporting and compliance objectives of the issuer and the issuer's framework of internal controls. To understand its exposure to risks, an issuer should first define clear objectives:

- **Operational Objectives:** Objectives that facilitate effective and efficient operations by enabling the issuer to achieve strategic, operational and financial performance goals and safeguard such goals against business, operational, financial, compliance and other risks (including fraud).
- **Reporting Objectives:** Objectives that safeguard the quality of the issuer's internal and external reporting, including through the maintenance of proper records and processes that generate timely, relevant and reliable information.
- **Compliance Objectives:** Objectives that focus on the issuer achieving regulatory compliance (and compliance with applicable laws) and adherence to internal policies with respect to the operation of the issuer's business.

12. After defining its objectives, an issuer can identify the risks that may impact or prevent it from achieving these objectives. The risks that each issuer encounters will be different, depending (among other things) on the scale, complexity and geographical locations of its business operations. An issuer should undertake the following steps:

(1) **Analyse the source of potential risks**

The scope of the issuer's analysis should be broad and cover risks that can develop from internal processes and infrastructure (for example IT infrastructure, issuer's resources, assets, organisation and operational infrastructure), as well as from external interactions, developments and threats (for example political or economic environment, business developments, and interaction with outside parties). Without limitation, the scope for analysing potential risks should be wide enough to cover material ESG risks, cyber security risks, and fraud risk.

(2) **Evaluate and prioritise the identified risks**

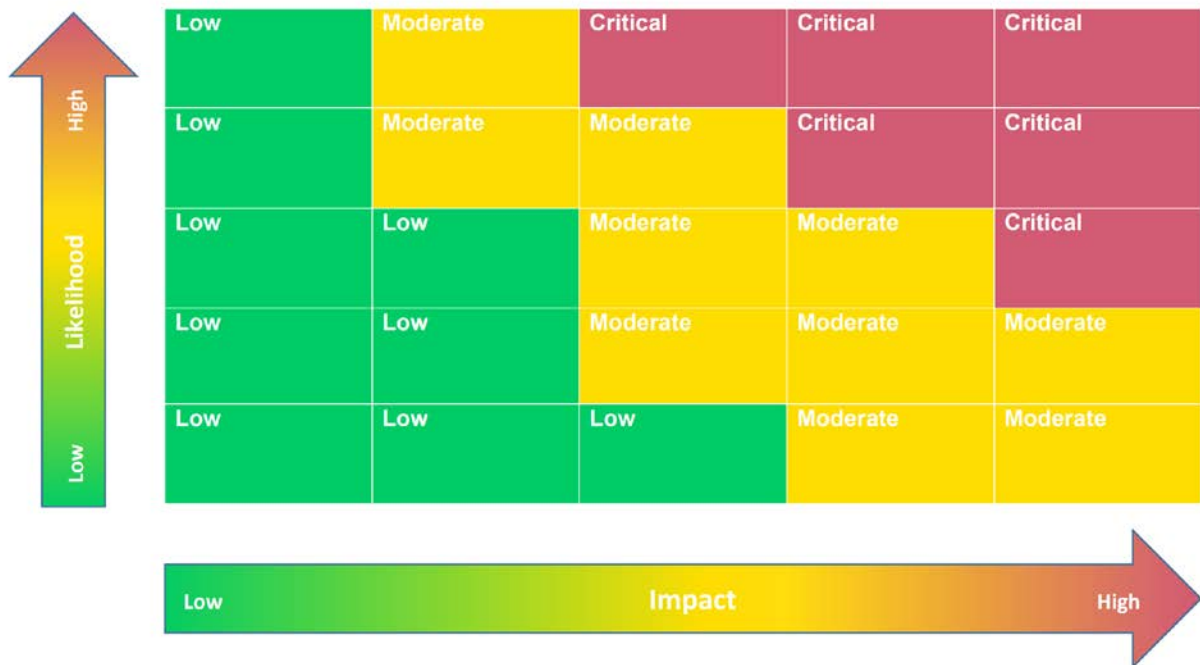
To formulate its risk management strategy, the issuer will have to evaluate identified risks and develop procedures to prioritise addressing significant risks and allocate relevant resources accordingly. This evaluation should be conducted by the board with the support of the issuer's management.

(3) **Monitor existing risks (and the emergence of new risks)**

The issuer should constantly monitor the development of current and emerging risks. For the purpose of tracking risks and logging risk responses, an issuer may consider creating a risk register of all identified risks with a particular focus on significant risks. This risk register should be updated regularly and, in any event, at least annually.

Risk heat map

13. The issuer may make use of a “risk heat map”, as illustrated in the diagram below, to assess the impact of the identified risks that are recorded on its risk register. In the “risk heat map”, the issuer’s top risks (which may include existing and potential risks) should be plotted into a matrix and graded in accordance with their likelihood of occurrence and impact on the issuer’s objectives and goals. The board can consider the resulting “heat” rating and review / adjust the risk management and internal control systems to mitigate such risks.





Practical considerations for boards

Questions the board should ask when considering the issuer's procedures to identify and assess risk:

- Has the board considered and formulated clear objectives? Is the issuer's process of risk identification and assessment focused on safeguarding these objectives?
- Is the current risk identification procedure wide enough to cover not only existing risks but also emerging risks? Is there a robust process of continued monitoring for new / emerging risks (and re-evaluation of existing risks)?
- What is the level of the issuer's risk tolerance in pursuing its objectives? Has this been clearly communicated throughout the organisation?
- Has the risk assessment sufficiently taken account of the impact of each risk on the issuer's objectives? Are the risk management strategies aligned with the issuer's risk tolerance?
- Are there any procedures for regularly adjusting the existing risk assessment to reflect developments or changes in the issuer's objectives or risk profile?
- Have sufficient resources been committed to the process of risk identification and assessment?
- Do channels exist for different functions within the issuer to elevate risks or voice concerns in terms of the existing risk assessment procedures?

Internal controls

Components of risk management and internal control systems

14. While there is no "one-size-fits-all" approach to designing an effective and appropriate system of risk management and internal controls, international bodies have developed a framework setting out components that should be covered by an issuer's internal controls. When designing their risk management and internal control systems, issuers can consider and apply these components in accordance with their unique risk profile and circumstances.

Table 6: Components of risk management and internal control systems⁷⁸

| Components | Principles |
|---|---|
| <p>Component 1 - Corporate culture / control environment</p> <p>This refers to the issuer’s overall culture of internal controls, i.e. the issuer’s control environment.</p> <p>It is important that, throughout the various levels of the issuer’s operation and staff, there is a commitment to integrity, compliance and ethical behaviour. This commitment starts at the board level as the right “tone from the top” is required to achieve buy-in across the organization.</p> | <ol style="list-style-type: none"> 1. Integrity and Ethical Values – There is a firm commitment to ethical standards and culture of integrity, including through appropriate policies and procedures (whistleblowing policy, code of conduct, etc.). 2. Independent Board Oversight – The board maintains independence from management and exercises appropriate oversight of the internal control system’s implementation (among others, through the audit committee). 3. Organizational Structure – There is a defined structure of authority and responsibility to implement operational, reporting, compliance, and business objectives. 4. Human Resources – Staff recruitment, development and retention is focused on alignment with the issuer’s objectives, in particular in terms of culture, integrity and compliance. 5. Accountability – There is a system of responsibility and accountability in place that includes regular reviews of staff performance including on compliance metrics related to the internal control systems. |
| <p>Component 2 - Risk assessment</p> <p>This refers to ongoing risk assessment across all aspects of the issuer’s business. An issuer needs to operate with clear objectives which allow for an ongoing analysis of risks (including fraud risk) to such objectives – this includes identifying and analysing significant change to (among other things) ensure internal controls remain effective.</p> | <ol style="list-style-type: none"> 6. Identification of Objectives – Establish strategic operational, reporting, and compliance objectives to allow for the identification of potential risks and the impact of such risks to the objectives. 7. Identification of Risks – Conduct assessment of risks for the issuer’s objectives and adopt plans for risk management. 8. Fraud Risks – Consider fraud risks and adopt appropriate steps to manage such risks. 9. Impact on Internal Controls – Consider the impact of its risk assessment on its internal control systems and make any changes as required. |

⁷⁸ Source: The Internal Control—Integrated Framework (ICIF-2013) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) formed by five global accountancy and auditing organizations. See also the Hong Kong Institute of Certified Public Accountants, Technical Bulletin, [Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting](#).

Component 3 - Internal controls

This describes the internal control systems / control activities put in place to respond to the risk assessment and mitigate the identified risks. This includes activities, processes, policies and communications required to establish a strong framework of internal controls and respond adequately to risks.

10. **Internal Controls** – The issuer adopts and implements a system of internal controls (or control activities) to manage and mitigate risks.
11. **Technology** – The internal control systems include appropriate controls over technology / IT and online infrastructure / the use of AI.
12. **Policies / Procedures** – The internal control system is supported by appropriate policies and procedures.

Component 4 - Information and communication

This requires an issuer to put in place procedures to ensure that the internal control systems are supported by appropriate and up-to-date information and data, and, for such information to be adequately communicated internally and externally (as applicable).

13. **Information and Data** – To ensure proper operation of the risk assessment and internal control systems, the issuer deploys accurate, timely, and sufficiently detailed information and/or data (issuers should also critically assess the impact of the use of AI on such processes).
14. **Internal Communication** – Relevant information is communicated in a timely and thorough manner to support the effective operation of the internal control systems.
15. **External Communication** – Communication designed to support the effective operation of internal control systems should also involve external stakeholders (as required).

Component 5 - Monitoring

This requires an issuer to continuously monitor the internal control systems and ensure that they remain fit for purpose, and that potential deficiencies are communicated in a timely manner such that appropriate actions can be taken.

16. **Ongoing Monitoring** – Conduct ongoing monitoring and periodic reviews of the internal control systems effectiveness. The monitoring should involve internal and external resources (as appropriate).
 17. **Reporting** – Results of the ongoing monitoring and review should be reported to management and the board (and other relevant stakeholders) in a timely manner, in particular if deficiencies have been identified and/or changes to the existing systems are required.
-

Monitoring and Review of Internal Control Systems

15. The board is responsible for putting in place a proper process and procedures to govern the ongoing monitoring and periodic reviews of the issuer's risk management and internal control systems⁷⁹.

⁷⁹ MDR paragraph H and Principle D.2.

16. The board may delegate the monitoring and control activities to board committees, management, and internal and external functions. The board should, however, maintain oversight and apply independent and professional judgment on any reports it receives on the effectiveness of the risk management and internal control systems. The board should also consider whether the issuer in its particular circumstances may benefit from the engagement of independent third parties (such as external auditors or consultants) to facilitate the ongoing monitoring or the periodic reviews.
17. The CG Code requires issuers to conduct reviews of the risk management and internal control systems' effectiveness at least annually⁸⁰. The board should assess the frequency and scope (e.g. whole or parts of the systems) of the review, taking into account the particular situation of the issuer. For example, more frequent reviews may be appropriate where significant control failings and weaknesses were identified in prior reviews, and review intervals of one year may be too long for assessing the effectiveness of the adopted remedial measures.
18. The board should plan how the review should be conducted and how relevant work will be distributed among the issuer's management and internal departments and external providers. The board is also responsible for ensuring that the review process is adequately resourced. It is important to document and keep a record of the steps taken, and the outcome of the review of the risk management and internal control systems' effectiveness (including any assurance that the board has received).

Scope for annual reviews

19. The scope for the review of risk management and internal control systems should be broad and cover all material aspects of these systems, including financial, operational and compliance controls⁸¹. It should also cover the issuer's subsidiaries.
20. The areas of focus below represent matters that may be considered for review. To the extent that any area is not included within any review, a clear record should be kept of the reasons for determining not to do so.

⁸⁰ MDR paragraph H and Principle D.2.

⁸¹ CP D.2.1.

Table 7: Scope for annual reviews of risk management and internal control systems⁸²

| Components | Scope for Annual Review |
|---|---|
| <p>Component 1 - Corporate culture / control environment</p> | <p>Assessment of integrity and ethical values across the organization, including:</p> <p>What are the relevant policies and procedures (including on code of conduct, conflict of interest, whistleblowing, handling of complaints); what is the approach to legal and regulatory compliance (including compliance with the Listing Rules and the CG Code); how is staff / management remuneration assessed.</p> <p>Assessment of board independence and performance, including:</p> <p>What is the level of independence, experience and respective roles and responsibilities of board members; is there a process for the declaration of interest; what is the composition of the board committees; whether the terms of reference of the board committees remain appropriate and what is the level of communication between the board and its committees; are directors' interests being declared.</p> <p>Assessment of management performance and commitment to internal controls, including:</p> <p>What is the quality of financial reporting (including but not limited to relevance, reliability, comparability and timeliness); what are the operational goals and policies & procedures in pursuit of such goals; is there sufficient attention to and frequency of discussions on governance, risk and internal control related topics.</p> <p>Assessment of organizational structure, including:</p> <p>What are the relevant legal entities, business units, etc. and their responsibilities; how do the reporting lines (in particular between management and business units) work.</p> <p>Assessment of financial reporting competencies, including:</p> <p>What is the level of staffing and is the experience and qualification of staff members adequate, in particular in relation to governance / financial reporting; what is the level of training.</p> <p>Assessment of responsibilities and delegation, including:</p> <p>What are the relevant roles and responsibilities, level of authority, assignment of authority and delegation, relevant policies and procedures (including on override of authority).</p> |

⁸² Source: The Hong Kong Institute of Certified Public Accountants, Technical Bulletin, [Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting](#).

Assessment of human resources performance, including:

What policies and procedures are in place, what is their practical implementation in relation to recruitment, training, performance evaluation, promotion, compensation, termination.

Assessment of legal / regulatory compliance, including:

What is the level of compliance with (i) (financial) reporting requirements, (ii) laws and regulations (including Listing Rule compliance), and what are the internal control systems in place to procure such compliance, and monitor and report potential deficiencies.

**Component 2 -
Risk assessment**

Assessment of objectives, including:

Are there clear objectives in terms of the issuer's operations / business, financial reporting and regulatory / legal compliance.

Assessment of risk assessment and management procedures, including:

What are the processes in place for risk assessment and management; regulatory and legal compliance; fraud identification and prevention; is there an ongoing monitoring of the operating environment and potential risks; are there (business) contingency plans; are financial reporting risks assessed.

**Component 3 -
Internal controls**

Detailed assessment of internal controls in place, including:

Analysis of policies and procedures, relevant roles and responsibilities, segregation of duties, record keeping and an assessment of compliance with laws / regulations across all aspects of the issuer's operation, such as:

- Sales, accounts receivable and collection;
- Procurement, accounts payable and payment;
- Inventory management, including logistics;
- Production and costing;
- Human resources and payroll;
- Fixed assets;
- Cash and treasury management;
- Insurance;
- Financial reporting and disclosure controls;
- Taxes; and
- IT system (general and application) controls.

**Component 4 -
Information and
communication**

Assessment of use of information and existing level of communication in relation to:

- Corporate planning, budgeting, forecasting;
- Reporting from and to management (including without limitation monthly updates to the board as required by the CG Code);

-
- Internal communication, including policies / procedures for monitoring and detecting confidential / sensitive information, possible conflicts, notifiable / connected transactions (Chapters 14 and 14A of Listing Rules), other legal or regulatory exposure;
 - External communication, including policies / procedures on communication with external parties, distribution of annual/ interim reports and publication of results announcements (including pursuant to Listing Rules 13.46, 13.48 and 13.49), handling of inside information and leakage of sensitive information (including pursuant to Listing Rule 13.09 and Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)), regulatory enquiries (including pursuant to Listing Rule 13.10);
 - Level of confidentiality applied to communication and dissemination of (sensitive) information; and
 - Level of data protection across the organization, including against cyber threats and data theft, and compliance with applicable personal data laws.

Component 5 - Monitoring

Assessment of monitoring functions, policies and procedures, including:

- Board / management level monitoring;
 - Internal audit (or other function) monitoring, including:
 - Role / responsibility of monitoring function;
 - Interaction with external auditor / providers;
 - Evaluation and mitigation of deficiencies;
 - Escalation / reporting to management / board;
 - Implementation of internal controls / policies.
 - Channels for reporting / whistleblowing;
 - Management letter and internal control findings communicated by external auditor and/or service providers; and
 - Level of monitoring of legal / regulatory compliance.
-



Practical considerations for disclosure on risk management and internal controls

An issuer needs to make detailed disclosure in the corporate governance report on its risk management and internal control systems and the (at least) annual reviews of these systems (MDR paragraph H). An issuer should consider the following questions when preparing disclosures:

Disclosure on risk management and internal control systems' scope

- Are there sufficient details on how the issuer identifies and manage significant risks (including ESG, fraud and cyber risks)?
- Is there disclosure on whether the issuer has an internal audit function (and if not, how relevant functions have otherwise been delegated)?
- Is there a description on the relevant aspects of its risk management and internal control systems and any significant changes that were made to the systems during the last reporting period? There should be an explanation on what prompted changes made to the systems (e.g. change in risk profile, discovery of potential deficiencies).

Disclosure on reviews of risk management and internal control systems

- Is disclosure sufficiently detailed on the scope (e.g. which group entities are being included), process and frequency of the review(s) of the risk management and internal control systems conducted during the relevant reporting period?
- Is any description on the roles of all stakeholders involved in the reviews provided (including confirmations whether external providers have been involved)?
- Have the findings and results of the review been disclosed in sufficient detail – including information on any significant control failings or weaknesses identified during the reporting period and remedial steps taken?

Board confirmation of risk management and internal control systems' effectiveness

- Has the board obtained sufficient information and assurances to come to a finding that the issuer's risk management and internal control systems remain effective, including from management, internal departments (e.g. internal audit) or any external provider (e.g. the auditor)?
- Has the board confirmed in the corporate governance report that (i) it is responsible for the issuer's risk management and internal control systems; and (ii) based on the board's review and assurances received, these systems continue to be appropriate and effective?

Policies and systems on whistleblowing and anti-corruption

21. A commitment to integrity, including measures to prevent corruption and to raise concerns and complaints in confidence and anonymity, are key aspects of good corporate governance. Issuers are required to maintain a whistleblowing policy and a policy / system that promotes and supports anti-corruption laws and regulations⁸³.
22. The Hong Kong Independent Commission Against Corruption (**ICAC**) is developing an Integrity Compliance Management System (**ICMS**), with relevant guidance, that it aims to publish in 2026. The ICMS provides a comprehensive framework of integrity policies and measures to help build an issuer's capacity to uphold integrity and detect and prevent corruption. Issuers are encouraged to adopt the ICMS by integrating relevant procedures into their existing framework of risk management and internal controls. The core components of an ICMS are set out below:

Table 8: Overview of an Integrity Compliance Management System

| Core Components | Description |
|--|---|
| Component 1 - Integrity policy and code of conduct | <p>Implement an integrity policy that covers (among other things):</p> <ul style="list-style-type: none"> • a statement of top-level commitment to adopt ethical and anti-corruption business practices, high standards of integrity and a zero tolerance for corruption; • the issuer's commitment to capacity building and collaboration with government, regulators, anti-corruption agencies, other corporations, etc. in combating corruption; and • details as to the issuer's anti-corruption measures (see Anti-corruption Policy in Table 9 below). <p>Implement a code of conduct (or update existing one) to set out the required conduct of issuer's directors, management and other staff, including:</p> <ul style="list-style-type: none"> • compliance with applicable laws and regulations in Hong Kong and abroad; • restrictions on solicitation, acceptance and offering of advantages; • declaration and management of conflicts of interest; • confidentiality of information; and • consequences of breaching the code of conduct. |
| Component 2 - Integrity capacity and culture building | <p>Adopt practices and measures to build the issuer's integrity capacity and culture:</p> |

⁸³ CPs D.2.6 and D.2.7.

-
- embed integrity and ethical values into corporate culture by fostering leadership commitment, communication, accountability and transparency;
 - adopt regular training focused on integrity capacity building for directors, management and staff at different levels of the issuer;
 - update existing systems, internal controls and incentives to ensure that integrity becomes an integral part of daily business operations; and
 - engage with external stakeholders (e.g. government, regulators, anti-corruption agencies, industry peers, business counterparts) on capacity building, sharing of best practices and combatting corruption.

Component 3 - Integrity risk management

Adopt (or update existing) risk management and internal controls to cover:

- integrity and corruption risks identification, assessment and management across all areas of the issuer’s business (e.g. procurement); and
- specific controls for mitigating integrity and corruption risks.

Component 4 - Corruption detection and reporting

Adopt procedures in the issuer’s daily operations for corruption detection and reporting, including:

- controls and measures for detecting irregularities, misconduct and corruption risks;
- procedures for reporting corruption in accordance with the issuer’s whistleblowing policy (see Whistleblowing Policy in Table 9 below), including requirements for relevant staff to duly assess each report received; and
- procedures for referrals of alleged or suspected corrupt practices to anti-corruption agencies (e.g. the ICAC or relevant overseas anti-corruption agencies) as soon as possible.

Component 5 – ICMS audit

Conduct regular monitoring and periodic “audits” of the implementation of the ICMS by the issuer’s internal audit function or other responsible internal department to ensure its effectiveness and consider the need for changes / enhancements.

23. Issuers are required to adopt effective whistleblowing and anti-corruption policies and procedures, either as part of the ICMS or as individual policies. The table below provides further details on what such policies are expected to cover.

Table 9: Overview of Whistleblowing and Anti-corruption Policies

| | Whistleblowing Policy | Anti-corruption Policy |
|--|---|--|
| Purpose | <ul style="list-style-type: none"> • Allowing employees and third parties (those who deal with the issuer, e.g. customers and suppliers) to voice concerns. • Safeguarding the confidence and anonymity of concerns raised. • Detecting and deterring misconduct or malpractice. | <ul style="list-style-type: none"> • Establishing a system of comprehensive anti-corruption measures and procedures in support of applicable anti-corruption laws and regulations. • Providing employees and third parties with clear guidance and requirements on the issuer's anti-corruption policy and applicable anti-corruption laws and regulations. • Promoting anti-corruption culture within the issuers to sustain integrity management and enhance corruption prevention. |
| Culture / pledge | <ul style="list-style-type: none"> • Referencing corporate culture / regulatory objectives and commitment to integrity. • Encouraging a “speak-up culture”, where concerns on actual or suspected misconduct can be reported. • Confirming confidence and anonymity for any reports made under the policy, and protection from retaliation. • Confirming commitment that complaints / reports will be handled in a timely, fair and independent manner. | <ul style="list-style-type: none"> • Referencing corporate culture / regulatory objectives and confirming board / management commitment to integrity, zero tolerance for corruption and a “speak-up culture”. • Linking anti-corruption policy and procedures with other corporate governance policies and whistleblowing policy / relevant reporting channels. • Confirming the issuer's commitment to compliance with applicable anti-corruption laws in Hong Kong and abroad, including the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong). |
| Personnel to which the policy applies | <ul style="list-style-type: none"> • Defining who can (i) make whistleblowing reports, and (ii) be subject of such reports (i.e. reporting parties and implicated parties). <p>Note: The scope has to be wide to cover board, management, employees at all levels including subsidiaries, and external providers (e.g. suppliers, contractors) and customers (as applicable).</p> | <ul style="list-style-type: none"> • Defining who is covered by policy. <p>Note: The scope should cover the board, management and employees at all levels, including for subsidiaries, 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).</p> |

Conduct / breaches covered

- Defining breaches or (mis)conduct that warrant reporting under policy (supported by practical examples of major and minor misconduct).
- Specifying level of substantiation and evidence expected in support of reports made under the policy.
- Defining breaches or (mis)conduct to which the policy applies (supported by practical examples).
- Confirming a prohibition of offering advantages to / soliciting or accepting advantages from any person or organisation in relation to the issuer's business.
- Defining any exception to the above prohibition (in accordance with applicable laws) and any approval processes required.
- Defining guidelines for the avoidance of actual, perceived or potential conflicts of interest and for the declaration and management of conflicts of interest.
- Specifying steps and processes to conduct third-party due diligence.

Implementation / enforcement

- Providing convenient and anonymous channel(s) for reporting.
 - Confirming process for detecting, assessing and inquiring into possible breaches / misconduct.
 - Defining disciplinary sanctions resulting from breaches.
 - Identifying responsible departments / employees overseeing the policy (including any external providers may be involved in certain functions under the policy).
 - Clarifying when and under which circumstances breaches / misconduct should be (i) escalated to relevant law enforcement agencies (e.g. when reporting to the ICAC is required in respect of alleged or suspected corruption) and (ii) brought to the board's attention.
 - Providing contact points if queries as to scope and application of the policy arise.
- Note:** (i) Consider whether different channels with different mandates should be established (e.g. for different departments / different group companies / different levels of staff). (ii) While reporting channels should provide anonymity, consider including a statement encouraging reporting person to provide name and/or contact details to facilitate subsequent follow-up actions.
- Confirming process of handling reports and involved departments, staff (including any external providers that may be involved in certain functions under the policy).
- Note:** Reports against senior management and the board may require handling by a designated staff member with sufficient seniority and independence.
-

- Clarifying when reports should be escalated to relevant law enforcement agencies (e.g. the ICAC for corruption-related reports).
- Setting out how reports and follow-up actions under the policy are recorded and stored (i.e. through classifying such records as “confidential” and storing them securely to avoid unauthorised access).
- Referencing whistleblowing channels available to report possible breaches / misconduct.

Note: The implementation and operation of the whistleblowing policy should be monitored by the audit committee (or another committee comprising a majority of INEDs).

Note: Issuers should ensure that their own inquiries into possible misconduct or breaches of applicable policies / law do not hinder or jeopardise investigations by law enforcement agencies. In particular, where reports have already been made to such agencies, issuers should ensure they align their inquiries with the agency or (where necessary) terminate their own inquiry in order not to impede the agency’s investigation.

Communication of policies

- Policies on integrity management, business ethics, governance and compliance, including whistleblowing and anti-corruption policy, have to be regularly communicated to staff of internal departments and external providers (as required) and should be disclosed on the issuer’s website.
- Reporting channels under the whistleblowing policy should be clearly communicated to staff and easy to access with the necessary level of confidentiality / anonymity.

Training / capacity building

- Issuers should adopt a systematic approach to enhancing their corporate governance and commitment to integrity to ensure that relevant policies and procedures are implemented in the issuer’s daily operations.
- This should include periodic training on corporate governance (including on the relevant policies and procedures for anti-corruption and relevant channels for whistleblowing reports).
- Training and guidance should be tailored to requirements of different levels of staff and departments, and may be extended to third parties (e.g. customers, suppliers, affiliates, or providers).
- Directors should be encouraged to attend regular integrity training, including that offered by the ICAC.

Review and update of policies

- Regular review and update of relevant corporate governance policies, including the whistleblowing and anti-corruption policy to ensure they stay fit for purpose.

24. Issuers may approach the ICAC (<https://cpas.icac.hk/>) for a free, tailor-made and confidential corruption prevention advisory service when shaping and formulating their whistleblowing and anti-corruption policies, systems and procedures. The ICAC also offers:
 - helpful guidance and resources (including “[Integrity and Corruption Prevention Guide on Managing Relationship with Public Servants](#)”); and
 - a free subscription to its latest updates, alerts, trainings and publications at: <https://subscription.icac.org.hk/subscribe/>.
25. Issuers may also make reference to:
 - publications and guidance by other regulators, including the SFC (including the “[Guideline on Anti-Money Laundering and Counter-Financing of Terrorism \(For Licensed Corporations\)](#)”); 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.
26. For more helpful links and guidance, please visit the External Resources page of the Exchange’s [Corporate Governance Portal](#).

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