

Consultation Paper

# Review of Corporate Governance Code and Related Listing Rules

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# CONTENTS

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	Page No.
<b>DEFINITIONS</b> .....	1
<b>CHAPTER 1: INTRODUCTION</b> .....	3
<b>CHAPTER 2: PROPOSALS AND CONSULTATION QUESTIONS</b> .....	9

## **APPENDICES**

APPENDIX I:	Proposed Amendments to the Main Board Listing Rules
APPENDIX II:	Proposed Amendments to the GEM Listing Rules
APPENDIX III:	Mapping Table: Proposed Re-arrangement of Certain Sections of the Corporate Governance Code
APPENDIX IV:	Privacy Notice

## HOW TO RESPOND TO THIS CONSULTATION PAPER

The Exchange, a wholly-owned subsidiary of HKEX, invites written comments on the changes proposed in this paper, or comments on related matters that might have an impact upon the changes proposed in this paper, on or before **16 August 2024**.

You may submit written comments by completing the questionnaire which can be accessed via the link and QR code below:

Link: [https://surveys.hkex.com.hk/jfe/form/SV\\_ekBBc34CpYvcKdU](https://surveys.hkex.com.hk/jfe/form/SV_ekBBc34CpYvcKdU)

QR code:



Our submission enquiry number is (852) 2840-3844.

Respondents are reminded that the Exchange will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in **Appendix IV**.

Submissions received during the consultation period by **16 August 2024** will be taken into account before the Exchange decides upon any appropriate further action, and a consultation conclusions paper will be published in due course.

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## DEFINITIONS

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TERM	DEFINITION
“2022 Update”	Amendments to the CG Code that came into effect on 1 January 2022. Please refer to the <a href="#">consultation paper</a> published in April 2021 and the <a href="#">conclusions paper</a> published in December 2021;
“AGM”	Annual general meeting;
“CG Disclosure Analysis”	<a href="#">Analysis of 2022 Corporate Governance Practice Disclosure</a> published in November 2023;
“CG Code” or “Appendix C1”	Corporate Governance Code as set out in Appendix C1 to the Main Board Listing Rules and Appendix C1 to the GEM Listing Rules;
“CG Report”	Corporate Governance Report under the CG Code;
“CP(s)”	Code Provisions under the CG Code;
“ESG”	Environmental, social and governance;
“Exchange” or “we”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited;
“First-time Directors”	Directors who: (a) are appointed as a director of an issuer listed on the Exchange for the first time (i.e. have no prior experience as a director of an issuer listed on the Exchange); or (b) have not served as a director of an issuer listed on the Exchange for a period of three years or more prior to their appointment;
“GEM Listing Rules” or “GEM Rules”	Rules governing the listing of securities on GEM of The Stock Exchange of Hong Kong Limited;
“HKEX”	Hong Kong Exchanges and Clearing Limited;
“INED”	Independent non-executive director;
“IPO”	Initial public offering;
“Listing Rules” or “Rules”	Main Board Listing Rules and GEM Listing Rules;
“Long Serving INED”	Independent non-executive director who has served for more than nine years on the board of a listed issuer;
“Main Board Listing Rules” or “MB Rules”	Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited;
“MDR(s)”	Mandatory Disclosure Requirements under the CG Code;

<b>“Overboarding INED”</b>	INED who is holding seven or more listed issuer directorships; and
<b>“RBP(s)”</b>	Recommended Best Practices under the CG Code.

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## CHAPTER 1: INTRODUCTION

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### Background

1. This consultation paper seeks views and comments on proposed changes to the CG Code and related amendments to the Listing Rules.
2. As a frontline regulator of more than 2,600 listed issuers, the Exchange plays a vital role in promoting good corporate governance practices and reporting amongst issuers. The Exchange reviews its CG framework from time to time to ensure that it remains fit for purpose, continues to promote high quality corporate governance standards, and is adequate for maintaining investors' confidence in the market. The last round of amendments to the CG Code were introduced on 1 January 2022<sup>1</sup>.
3. This paper aims to address current corporate governance concerns and areas where further improvement can be made. In formulating the proposals set out in this paper, we have taken into account:
  - (a) regulatory developments in a number of jurisdictions (including the UK, Australia, Singapore, Malaysia and Mainland China);
  - (b) our findings from the CG Disclosure Analysis; and
  - (c) feedback gathered in preliminary discussions with stakeholders including issuers, investors, market practitioners and the industry bodies that represent them.

### Focus of this consultation

4. Our proposals aim to:
  - (a) Improve board effectiveness through (i) the designation of a lead INED ("**Lead INED**"); (ii) mandatory director training, (iii) regular board performance reviews and disclosure of a board skills matrix; (iv) a holistic annual assessment by the nomination committee of directors' time commitment and contribution to the board; and (v) phasing out of Overboarding INEDs;
  - (b) strengthen board independence by phasing out Long Serving INEDs;
  - (c) further promote board and workforce diversity of issuers, by actions including requiring the nomination committee to comprise directors of different genders;
  - (d) enhance the risk management and internal control sections of the CG Code; and
  - (e) promote better capital management by enhancing disclosures regarding issuers' dividend policy and the board's dividend decisions.

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<sup>1</sup> The last round of amendments to the CG Code mainly focused on: (i) corporate culture; (ii) board independence and refreshment; (iii) diversity; (iv) communications with shareholders and (v) alignment of the timing of publication of an issuer's ESG report and annual report.

### **Board effectiveness improvement**

5. As the board is central to good corporate governance, it is imperative for board composition to reflect a suitable balance of skills, experience and diversity of perspectives to enable it to function effectively in an evolving market.
6. Board effectiveness can be improved, for example, by identifying any gaps in the board's collective skillset so that targeted future board appointments can be made, periodically evaluating the board's performance, and ensuring that directors develop and maintain the relevant competencies and awareness, including through continuous professional development covering relevant topics, to effectively discharge their duties.

### **Strengthening board independence**

7. It has been a focus of the Exchange to promote periodic board refreshment and strengthen independent voices on issuers' boards. Periodic board refreshment, in particular the appointment of new INEDs, can help attract new views and perspectives to the board. It is also important that INEDs maintain their objectivity and independence. Where an INED has served on the board for an extended period of time, their continued objectivity and independence is more likely to be called into question given their familiarity with the issuer's management.

### **Promoting diversity**

8. Diversity in the boardroom helps bringing unique perspectives and encourages more robust discussions, enhances board performance and improves the quality of decision-making. Developing a more diverse pipeline of talent is vital to increased levels of diversity amongst those in senior positions.

### **Enhancing risk management and internal controls**

9. Sound risk management and internal controls are essential components of investor protection and market quality. Regular systematic monitoring of the effectiveness of the risk management and internal control systems, coupled with meaningful reporting, allows issuers to demonstrate their ability to manage risk and the board's capability to address any weaknesses identified, which in turn improves shareholder confidence.

### **Better capital management**

10. Effective capital management is a key contributor to an issuer's ability to drive sustainable growth and value. Since dividend payments represent an important means of investor return and an indication of an issuer's stability and future prospects, issuers should clearly communicate details regarding their dividend policy and the board's dividend decisions. Transparent, high-quality disclosure will facilitate shareholders and investors in their assessment of the issuer and in making more informed investment decisions.

## Key proposals

11. Our key proposals are summarized below:

<b>Key proposals</b>	
<b><u>Board Effectiveness</u></b>	
(a)	<p><b>Designation of Lead INED</b></p> <p><i>New CP<sup>2</sup></i>: require issuers without an independent board chair<sup>3</sup> to designate one INED as a Lead INED</p> <p><i>(see paragraphs 21 to 34 below)</i></p>
(b)	<p><b>Mandatory director training</b></p> <p>(1) <i>New rule<sup>4</sup></i>: require all directors to receive mandatory continuous professional development each year, on specified topics<sup>5</sup>, with First-time Directors required to complete a minimum of 24 training hours within 18 months of their appointment. For the purpose of this new rule, First-time Directors are directors who: (a) are appointed as a director of an issuer listed on the Exchange for the first time; or (b) have not served as a director of an issuer listed on the Exchange for a period of three years or more prior to their appointment.</p> <p>(2) <i>Revised MDR<sup>6</sup></i>: require enhanced disclosure in the CG Report on director training</p> <p><i>(see paragraphs 35 to 60 below)</i></p>
(c)	<p><b>Board performance review</b></p> <p><i>Upgrade to CP<sup>7</sup></i>: require a board performance review to be conducted at least every two years, with specific disclosure in the CG Report</p> <p><i>(see paragraphs 61 to 69 below)</i></p>
(d)	<p><b>Disclosure of board skills matrix</b></p>

<sup>2</sup> Newly added CP C.1.7.

<sup>3</sup> A board chair is not independent if he or she is not an independent director. This would include where the board chair is also the chief executive of the issuer.

<sup>4</sup> Newly added MB Rules 3.09F, 3.09G and 3.09H / GEM Rules 5.02F, 5.02G and 5.02H.

<sup>5</sup> The relevant topics include, as a minimum: (i) the roles, functions and responsibilities of the board, its committees and its directors, and board effectiveness; (ii) issuers' obligations and directors' duties under Hong Kong law and the Listing Rules, and key legal and regulatory developments (including Listing Rule updates) relevant to the discharge of such obligations and duties; (iii) CG and ESG matters (including developments on sustainability or climate-related risks and opportunities relevant to the issuer and its business); (iv) risk management and internal controls; (v) updates on industry-specific developments, business trends and strategies relevant to the issuer.

<sup>6</sup> Revised MDR paragraph B(i).

<sup>7</sup> From current RBP B.1.5 to newly added CP B.1.4.



<b>Key proposals</b>	
	<p><u>New CP</u><sup>8</sup>: require issuers to maintain and disclose a board skills matrix in the CG Report, with enhanced disclosures in the CG Report on the board's skills (current mix and further skills that the board is looking to acquire, if any)</p> <p><i>(see paragraphs 70 to 78 below)</i></p>
(e)	<p><b>Overboarding INED and directors' time commitment</b></p> <p>(1) <u>New rule</u><sup>9</sup>: hard cap on overboarding (i.e. an INED must not concurrently hold more than six listed issuer directorships), with a three-year transition period<sup>10</sup></p> <p>(2) <u>New MDR</u><sup>11</sup>: require the nomination committee to annually assess and disclose (as part of its summary of work done during the year) its assessment of each director's time commitment and contribution to the board, taking into account their listed issuer directorships and other significant external time commitments</p> <p><i>(see paragraphs 79 to 95 below)</i></p>
<b><u>Independence of INEDs</u></b>	
(f)	<p><b>Independence of INEDs after nine years</b></p> <p><u>New rule</u><sup>12</sup>: hard cap on the tenure of Long Serving INEDs, with a three-year transition period<sup>13</sup>. Long Serving INEDs will be allowed to serve again as an INED on the board of the same issuer upon completion of a two-year cooling-off period</p> <p><i>(see paragraphs 96 to 120 below)</i></p>
<b><u>Board and Workforce Diversity</u></b>	
(g)	<p>(1) <u>New CP</u><sup>14</sup>: require issuers to have at least one director of a different gender on the nomination committee</p> <p>(2) <u>Upgrade to MDR</u><sup>15</sup>: require an annual review of the implementation of the board diversity policy</p> <p>(3) <u>New rule</u><sup>16</sup>: require issuers to have and disclose a diversity policy for their workforce (including senior management)</p>

<sup>8</sup> Newly added CP B.1.5.

<sup>9</sup> Newly added MB Rule 3.12A / GEM Rule 5.07A.

<sup>10</sup> This new rule is proposed to apply from 1 January 2028 onwards. Overboarding INEDs as at 31 December 2027 must comply with this rule by the conclusion of the first AGM that follows 31 December 2027 of any issuer that they are a director of.

<sup>11</sup> Revised MDR paragraph E(d)(iii).

<sup>12</sup> Newly added MB Rule 3.13A / GEM Rule 5.09A.

<sup>13</sup> This new rule is proposed to apply from 1 January 2028 onwards. The Exchange will cease to consider an INED who is a Long Serving INED as at 31 December 2027 to be independent as at the conclusion of the next AGM of the issuer that follows 31 December 2027.

<sup>14</sup> Newly added CP B.3.5.

<sup>15</sup> From current CP B.1.3 to revised MDR paragraph J(a).

<sup>16</sup> Revised MB Rule 13.92(1) / GEM Rule 17.104(1), as well as revised MDR paragraph J(b).

<b>Key proposals</b>	
	<p>(4) <u>Revised MDR</u><sup>17</sup>: require separate disclosure of the gender ratio of (i) senior management and (ii) the workforce (excluding senior management)</p> <p>(5) <u>New rule</u><sup>18</sup>: codify the Exchange’s existing guidance on the arrangements during temporary deviations from the requirement for issuers to have directors of different genders on the board</p> <p><i>(see paragraphs 121 to 134 below)</i></p>
<b><u>Risk Management and Internal Controls</u></b>	
(h)	<p>(1) <u>Upgrade to MDR</u><sup>19</sup>: require enhanced disclosures in the CG Report on the review conducted (at least annually) by the board of the effectiveness of the issuer’s and its subsidiaries’ risk management and internal control systems (“<b>RMIC Systems</b>”), including supporting information for the board’s conclusion that the RMIC Systems are effective and adequate and details of the review findings</p> <p>(2) Other enhancements to the risk management and internal control sections of the CG Code<sup>20</sup></p> <p><i>(see paragraphs 135 to 150 below)</i></p>
<b><u>Dividends</u></b>	
(i)	<p><u>New MDR</u><sup>21</sup>: require issuers to disclose specific information regarding their policy on the payment of dividends (or otherwise explain the reason(s) for not having such policy), as well as the dividend decisions made by the board during the reporting period, in the CG Report</p> <p><i>(see paragraphs 151 to 162 below)</i></p>

### Other minor Rule amendments

12. We wish to take the opportunity, in this paper, to propose certain minor amendments to the Listing Rules. The proposals include:
- (a) Codifying our existing guidance by revising the Listing Rules to require issuers to set a record date for general meetings and for receiving entitlements<sup>22</sup>;
  - (b) Codifying our recommended disclosures in the annual report regarding issuers’ modified auditors’ opinions into the Listing Rules<sup>23</sup>;

<sup>17</sup> Revised MDR paragraph J(c).

<sup>18</sup> Newly added MB Rule 13.92(2) / GEM Rule 17.104(2).

<sup>19</sup> From current CP D.2.1 to revised MDR paragraph H.

<sup>20</sup> Revised CPs in section D.2 of the CG Code.

<sup>21</sup> Newly added MDR paragraph M.

<sup>22</sup> Revised MB Rule 13.66(1) / GEM Rule 17.78(1).

<sup>23</sup> Revised paragraph 3.1 of Appendix D2 to the MB Rules / Note to GEM Rule 18.47.

- (c) Clarifying our expectation on the provision of monthly updates to the board<sup>24</sup>; and
- (d) Aligning requirements applicable to the three mandatory board committees, namely the nomination committee, the audit committee and the remuneration committee, on establishing written terms of reference and arrangements during temporary deviations from requirements<sup>25</sup>.

## Next Steps

- 13. Subject to the responses to this consultation, the revised CG Code and related Listing Rules will come into effect on 1 January 2025 and apply to CG Reports and annual reports in respect of financial years commencing on or after 1 January 2025.
- 14. In respect of the proposals on Long Serving INEDs and overboarding, we acknowledge that more time may be needed to allow affected issuers<sup>26</sup> to appoint suitable directors and adjust their board composition. We therefore propose a three-year transition period, which is consistent with the approach adopted to phase-out single gender boards. This means, the relevant rules will apply from 1 January 2028 onwards, with compliance required by the conclusion of the AGM following 31 December 2027 at the latest.
- 15. The proposed amendments apply to both the Main Board Listing Rules and the GEM Listing Rules, and are set out in **Appendices I and II**, respectively.
- 16. To improve the clarity of the CG Code, certain sections of the CG Code will be updated as a consequence of the proposed amendments becoming effective. For ease of reference, a mapping table setting out the current location and the new location of the relevant provisions under the re-arranged CG Code can be found in **Appendix III**.
- 17. We will continue to monitor issuers' compliance and support issuers by providing training and publishing guidance materials. Issuers are also encouraged to visit our one-stop CG educational platform, the [Corporate Governance Practices portal](#), for guidance materials, e-learning, webinars and other resources on relevant topics, as well as "[Board Diversity Hub](#)", a repository that provides information on and transparency around issuers' board diversity.
- 18. IPO applicants should be mindful of CG considerations and put in place appropriate mechanisms, at an early stage, to prepare for post-listing compliance with the CG Code and related Listing Rules. IPO applicants can refer to Chapter 4.3 (Corporate Governance & Environmental, Social and Governance) of the Exchange's [Guide for New Listing Applicants](#) for principles and guidance on prospectus disclosures in relation to CG and ESG matters.

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<sup>24</sup> Revised CP D.1.2 and the note.

<sup>25</sup> Revised MB Rules 3.23 and 3.27 / GEM Rules 5.33 and 5.36 and newly added MB Rules 3.27B and 3.27C / GEM Rules 5.36B and 5.36C (for all issuers except for issuers with a weighted voting rights structure), and newly added MB Rule 8A.28A (for issuers with a weighted voting rights structure).

<sup>26</sup> As of 31 December 2023, there were approximately 810 issuers with Long Serving INEDs on board, and there were 23 Overboarding INEDs who served on the boards of 181 issuers.

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## CHAPTER 2: PROPOSALS AND CONSULTATION QUESTIONS

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### Introduction

19. As the frontline market regulator of over 2,600 listed issuers, we are committed to promoting and maintaining robust CG standards and regulations. To that end, we have made periodic enhancements to our CG framework over the years to ensure that our requirements remain fit for purpose and reflect stakeholders' expectations.
20. Part I of this Chapter sets out the proposed amendments to the CG Code and related Listing Rules. Part II of this Chapter sets out the implementation dates and transitional arrangements (where applicable) for our proposals.

### Part I: Proposed Amendments

#### (A) Board effectiveness

##### I. Designation of lead INED

###### Current requirements

21. Currently, there is no requirement for issuers to designate an INED to serve as Lead INED.

###### Issues

22. In our preliminary discussions with investors for the purpose of formulating the proposals set out in this paper, they often cited a lack of access to the board, in particular its INEDs, as a key concern. They said that, as many Exchange listed issuers have an overlapping chair and chief executive<sup>27</sup> and/or are family-controlled, a Lead INED may better facilitate communication between investors and the board; among INEDs; and between INEDs and other directors, to strengthen the INEDs' independent voice.
23. Other jurisdictions, including the UK<sup>28</sup>, Singapore<sup>29</sup> and Australia<sup>30</sup>, have adopted and promoted the concept of a Lead INED on a voluntary, or "comply or explain", basis. The UK CG Code provides that the board should appoint one INED to be the senior independent director to provide a sounding board for the chair and to serve as an intermediary between directors and shareholders. The corporate governance codes of Singapore and Australia respectively require and recommend the appointment of a lead / senior INED where the chair is not an independent director or is conflicted.

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<sup>27</sup> As of 31 December 2023, approximately 24% of issuers had an overlapping chair and chief executive.

<sup>28</sup> Provision 12 of the [UK Corporate Governance Code 2024](#) ("UK CG Code") and paragraph 67 of the [Corporate Governance Code Guidance](#) issued by the UK Financial Reporting Council ("UK CG Code Guidance").

<sup>29</sup> Provision 3.3 of the [Singapore Code of Corporate Governance](#) ("Singapore CG Code") and [Practice Guidance 2: Board Composition and Guidance](#) issued by the Singapore Exchange.

<sup>30</sup> Commentary to Recommendation 2.5 of the [Australia Corporate Governance Code](#) ("Australia CG Code").

## Proposals

24. We propose to introduce a new CP<sup>31</sup> to state that issuers without an independent board chair should designate one INED as a Lead INED. A board chair would not be considered independent if he or she is not an independent director. This would include circumstances where the board chair is also the chief executive of the issuer.
25. Where an issuer has an independent board chair, the Exchange expects the board chair to fulfil the role of the Lead INED, unless the issuer designates another INED as the Lead INED.
26. The primary responsibility of the Lead INED, under this proposal, would be to facilitate and strengthen communication: among INEDs; between INEDs and the rest of the board; and with shareholders.
27. A Lead INED should serve as a channel of communication to enable shareholders, in particular minority shareholders, to understand the actions taken by INEDs in the performance of their responsibilities, and as an intermediary between directors and shareholders where contact through normal communication channels is inadequate. Further guidance will be provided on the expected role and functions of a Lead INED in this regard.
28. The Lead INED designation is not intended to create a separate or higher level of responsibility or liability relative to other INEDs on the board. All directors would still be subject to the same fiduciary duties and bear the same responsibilities in respect of the issuer on whose board they serve.
29. As INEDs are not responsible for the day-to-day management of the company, we would not expect a Lead INED to discuss the issuer's results and operational matters with potential investors or shareholders.
30. The role of Lead INED is also not intended to duplicate other existing board roles, for example the chairs of board committees. The duties of the three mandatory board committees under the Listing Rules and the Lead INED would remain separately set out in the CG Code<sup>32</sup>.
31. Each board committee chair and the Lead INED would be expected to attend the issuer's AGM. However, a Lead INED would not be solely responsible for answering queries from shareholders at an AGM and issuers would be free to determine who, from its management or board, was best placed to answer such queries.
32. We propose to require designation of a Lead INED on a "comply or explain" basis. We would however encourage all issuers to consider designating a Lead INED. Issuers may also choose to define a role for the Lead INED that includes functions beyond those contemplated under this proposal.
33. Issuers that do not have a designated Lead INED may provide reasoned explanations as to why they do not have one based on their individual circumstances. For example, they may set out the alternative shareholder communication channels that they have in place to address the investor concerns underpinning the Lead INED proposal.

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<sup>31</sup> CP C.1.7.

<sup>32</sup> See CP B.3.1 (in respect of the NC), CPs D.3.3 and D.3.7 (in respect of the AC), CP E.1.2 (in respect of the RC) and CP C.1.7 (in respect of the Lead INED).

## Rationale

34. A Lead INED offers a clear point of contact for potential investors and existing shareholders providing them with independent insight on aspects of an issuer's governance such as the quality of board discussions on matters including corporate strategy and INED performance (e.g. their scrutiny of loans granted by the issuer to external parties and connected transactions).

## Consultation question

<b>Question 1</b>	Do you agree with our proposal to introduce a new CP requiring issuers without an independent board chair to designate one INED as a Lead INED to enhance engagement with investors and shareholders? Please provide reasons for your views.
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## II. Mandatory director training

### Current requirements

35. The CG Code states that all directors should participate in continuous professional development to develop and refresh their knowledge and skills<sup>33</sup>. Issuers are required to disclose in their CG Report how each director has complied with this requirement during a reporting period<sup>34</sup>. Currently, there is no requirement for directors to undergo mandatory director training.

### Issues

36. In the current, fast-changing world, directors' knowledge and skillsets cannot remain static amidst an evolving market and continuous regulatory developments. Directors should upgrade their knowledge and develop and refresh their skills on an ongoing basis.
37. In our CG Disclosure Analysis, we noted that all sample issuers confirmed that their directors had received training during the financial year, but rarely provided specific details on the topics, hours and the identity of the providers of such training.
38. In exercising its enforcement role, the Exchange has found that disciplinary cases often arise due to directors' lack of understanding of their duties and responsibilities and relevant Listing Rule requirements. For this reason, our disciplinary sanctions are regularly accompanied by the imposition of mandatory training for directors.
39. Our current requirements are in line with the UK and Australia<sup>35</sup> as they encourage directors to undergo training to facilitate the discharge of their duties. However, some

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<sup>33</sup> CP C.1.4.

<sup>34</sup> MDR paragraph B(i).

<sup>35</sup> UK: Provision 21 of the UK CG Code; Australia: Recommendation 2.6 of the Australia CG Code.

jurisdictions go further and make training mandatory for directors, either first-time directors only upon appointment<sup>36</sup> or existing directors<sup>37</sup>, and specify the training topics.

40. We also note that directors who are members of industry associations (such as The Hong Kong Institute of Directors or The Hong Kong Chartered Governance Institute) or professional bodies (for example, the The Hong Kong Institute of Certified Public Accountants and The Law Society of Hong Kong) are required to undertake a specified amount of training each year to develop and enhance the knowledge and skills relevant to performing their role(s).

## Proposals

41. We propose to introduce new Listing Rule requirements<sup>38</sup> that all existing directors of issuers listed on the Exchange participate in mandatory continuous professional development, without specifying a minimum number of training hours.
42. For directors who: (a) are appointed as a director of an issuer listed on the Exchange for the first time (i.e. have no prior experience as a director of an issuer listed on the Exchange); or (b) have not served as a director of an issuer listed on the Exchange for a period of three years or more prior to their appointment (“**First-time Directors**”), we propose a minimum training requirement of 24 hours which must be completed within 18 months of the date of their appointment<sup>39</sup>.
43. In the event that, prior to the completion of the required 24 hours of training, a First-time Director ceases to be a director of the issuer and is subsequently appointed as a director of another (or the same) issuer listed on the Exchange, this requirement would reset and the director would be required to complete a minimum of 24 hours of training within 18 months from such subsequent appointment<sup>40</sup>.
44. In contemplating the minimum training hours for First-time Directors, the Exchange considered the training requirements of industry associations and professional bodies, the mandatory coursework of exchanges in other jurisdictions, as well as feedback received during ongoing stakeholder engagement.
45. We believe the proposed 24 hours training requirement would not place an onerous burden on First-time Directors, who would be free to choose to attend training relevant to their duties and responsibilities and according to their schedules spread out over an 18-month period from their appointment. This training could be internally or externally hosted, and we would not mandate the format in which it could be given.

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<sup>36</sup> Singapore and Malaysia require first-term directors to undergo mandatory training upon their appointment: Bursa Malaysia – [Practice Note 5 – Training for Directors](#); SGX – [Practice Note 2.3 Training for Directors with No Prior Experience](#).

<sup>37</sup> Bursa Malaysia – Rule 15.08 of the Main Market and ACE Market Listing Requirements.

<sup>38</sup> Newly added MB Rules 3.09F, 3.09G and 3.09H / GEM Rules 5.02F, 5.02G and 5.02H.

<sup>39</sup> MB Rule 3.09H / GEM Rule 5.02H.

<sup>40</sup> Such director would be required to complete the full 24 hours of training within 18 months from commencement of the subsequent appointment, regardless of the hours of training received during the appointment with the first issuer (if such training fell short of the required minimum of 24 hours within 18 months from such first appointment).

46. We also propose to highlight the importance of continuous training as a Principle under the CG Code<sup>41</sup>, and make consequential changes to certain CPs<sup>42</sup>.
47. To ensure that the training received by directors is relevant and to help directors develop and refresh their knowledge and skills, we propose that the mandatory training cover the following areas<sup>43</sup>:
- (a) the roles, functions and responsibilities of the board, its committees and its directors, and board effectiveness;
  - (b) issuers' obligations and directors' duties under Hong Kong law and the Listing Rules, and key legal and regulatory developments (including Listing Rule updates) relevant to the discharge of such obligations and duties;
  - (c) corporate governance and ESG matters (including developments on sustainability or climate-related risks and opportunities relevant to the issuer and its business);
  - (d) risk management and internal controls; and
  - (e) updates on industry-specific developments, business trends and strategies relevant to the issuer.
48. We propose that issuers confirm, as a mandatory disclosure requirement, that directors have participated in the training required by the new Rules. For each director, we would also require disclosure of information on: the number of hours; the topics of the training attended; the format of the training (e.g. whether by physical attendance or remotely); and the names of relevant training providers (if external)<sup>44</sup>.
49. Issuers are also required to confirm in this disclosure (as applicable) that the First-time Directors have completed a minimum of 24 training hours as required during the 18 months following their appointment (and are therefore no longer subject to the same).
50. We do not propose to mandate the format of the training (e.g. whether this is in person or online) or the training provider that must be used. Issuers would have the flexibility to decide on the format and providers that best fit their own circumstances.
51. Directors are encouraged to proactively engage in training that enhances their ability to fulfil specific duties and roles on the board, for example as members of particular board committees, or that are particularly relevant to the issuer's business, beyond the minimum threshold stipulated.
52. Our proposals on mandatory training will apply to all directors of Hong Kong listed issuers. Our proposal on the minimum number of training hours for First-time Directors will only apply to directors appointed after the proposed effective date of 1 January 2025 ("**Effective Date**")<sup>45</sup>. This is regardless of whether such directors are also

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<sup>41</sup> Principle C.1 (Responsibilities of directors) of the CG Code.

<sup>42</sup> CPs C.1.1 and C.1.4.

<sup>43</sup> The relevant topics are specified in MB Rule 3.09G / GEM Rule 5.02G.

<sup>44</sup> Revised MDR paragraph B(i).

<sup>45</sup> First-time Directors appointed prior to the Effective Date are only required to comply with the requirements of mandatory training with specified topics, and the 24-hour requirement will not apply. Where an individual is



directors of companies listed on other exchanges. Where a director is appointed to fill a casual vacancy, the proposed training requirements will apply from the issuer's full financial year following such appointment.

53. Compliance with the training requirements alone would not be considered as sufficient to establish that an individual has the character, integrity, experience and independence to serve as a director as currently required under the Listing Rules<sup>46</sup>.

## **Rationale**

54. Directors should keep abreast of the latest regulatory developments to ensure that they can properly discharge their role and duties and issuers remain compliant with applicable laws and regulations. Continuous training enables directors to develop and refresh their skills for the purpose of the effective functioning of the board and to ensure that their board contributions stay informed and relevant.
55. A requirement for all directors to be subject to mandatory training requirement, on a continuous basis, would help mitigate the risk of breaches that result in disciplinary cases and an improvement in compliance overall for the benefit of the quality of the Exchange's markets.
56. The 24-hour training requirement for First-time Directors is intended to ensure that (in respect of those who have not served on the board of a Hong Kong listed issuer) a minimum level of training is obtained during the first few years of directorship when such directors are gaining experience in their new role. In respect of persons who have not served on the board of an Exchange listed issuer for three years or more prior to their appointment, our proposal would ensure their knowledge is sufficiently refreshed following their appointment.
57. For the avoidance of doubt, the 24-hour training requirement for First-time Directors would be separate from and additional to general induction training provided by an issuer to newly appointed directors<sup>47</sup>.
58. We propose that our training requirements apply to First-time Directors, even if they are also directors of overseas issuers, as we consider it important that directors of Hong Kong listed issuers have sufficient knowledge and understanding of their duties and responsibilities as directors of issuers listed here.
59. The proposed training topics reflect the key areas that directors of Exchange listed issuers would be expected to know and to refresh their knowledge on an ongoing basis. These topics are also in line with the disclosures made in issuers' CG Reports regarding training received by directors, as well as those prescribed by other jurisdictions<sup>48</sup>.
60. Our proposals on enhanced disclosure of directors' training in the CG Report aim to improve transparency and accountability with regards to the training undertaken.

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appointed as a First-time Director in respect of issuer A after the Effective Date, and is subsequently appointed as a director of issuer B, the 24-hour requirement will apply to the individual in respect of issuer A.

<sup>46</sup> MB Rules 3.09 and 3.13 / GEM Rules 5.02 and 5.09.

<sup>47</sup> See CP C.1.1(a).

<sup>48</sup> See footnote 36 above.

## Consultation questions

<b>Question 2</b>	<p>Regarding continuous professional development for directors, do you agree with our proposals to:</p> <ul style="list-style-type: none"><li>(a) Make continuous professional development mandatory for all existing directors, without specifying a minimum number of training hours?</li><li>(b) Require First-time Directors to complete a minimum of 24 hours of training within 18 months following their appointment?</li><li>(c) Define “First-time Directors” to mean directors who (i) are appointed as a director of an issuer listed on the Exchange for the first time; or (ii) have not served as a director of an issuer listed on the Exchange for a period of three years or more prior to their appointment?</li><li>(d) Specify the specific topics that must be covered under the continuous professional development requirement?</li></ul> <p>Please provide reasons for your views.</p>
<b>Question 3</b>	<p>Do you agree with the proposed consequential changes to Principle C.1 and CP C.1.1 of the CG Code? Please provide reasons for your views.</p>

### III. Board performance review

#### Current requirements

61. It is a RBP<sup>49</sup> in the CG Code that a board conducts a regular evaluation of its performance.

#### Issues

62. The current RBP on board performance review was introduced in 2012. Nevertheless, we noted from our CG Disclosure Analysis that board performance reviews are not common amongst sample issuers.
63. Regulators in the UK<sup>50</sup>, Singapore<sup>51</sup> and Australia<sup>52</sup> require issuers to conduct board performance reviews and disclose the process on a “comply or explain” basis in their annual reports. The UK further requires the board chair to consider regular externally

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<sup>49</sup> RBP B.1.5.

<sup>50</sup> Principle L and provisions 21 to 23 of the UK CG Code. Paragraph 176 of the UK CG Code Guidance sets out non-exhaustive areas for consideration as part of the performance review, including the mix of skills, experience and knowledge on the board.

<sup>51</sup> Provisions 4.1, 5.1 and 5.2 of the Singapore CG Code.

<sup>52</sup> Recommendation 1.6 of the Australia CG Code.

facilitated evaluations, which for larger issuers are recommended to take place at least every three years<sup>53</sup>.

## Proposals

64. We propose to upgrade the current RBP to a CP<sup>54</sup> to require issuers, on a “comply or explain” basis, to conduct a board performance review at least every two years. Issuers would have discretion to determine the format of such review, including whether the review is conducted internally or through external providers.
65. We propose that the review focuses on the board’s performance as a whole, rather than assess the performance of each director individually. Issuers may, as part of this assessment, consider the board’s composition, diversity, board members’ qualifications and skills, how effectively board members work together to achieve the objectives of the issuer, and whether the board is sufficiently well equipped to tackle future risks and developments affecting the issuer’s business. We will provide further guidance on the areas to be covered in a board performance review.
66. We propose that issuers disclose in their CG Report details on the scope of the performance review conducted, the process and findings of the review, including any areas of improvement identified and measures taken or planned to address the findings.

## Rationale

67. Regular board performance reviews are an important tool to maintain and enhance board effectiveness. An evaluation of the board’s performance provides valuable feedback on the board and helps identify areas for improvement and development. The exercise supports board refreshment and succession planning and assists the board in considering and increasing diversity.
68. We have not mandated the format of board performance reviews as we wish to allow issuers flexibility in the design and implementation of a review that best suits their particular circumstances. This takes into account the cost and effort required to organise a review and the varying levels of resources available to different issuers.
69. The proposed disclosure requirement will improve transparency to the market, enhancing shareholders’ and investors’ understanding of board performance and effectiveness.

## Consultation question

<b>Question 4</b>	Do you agree with our proposal to upgrade the current RBP to a CP requiring issuers to conduct regular board performance reviews at least every two years and make disclosure as set out in CP B.1.4? Please provide reasons for your views.
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<sup>53</sup> Provision 21 of the UK CG Code.

<sup>54</sup> From current RBP B.1.5 to newly added CP B.1.4.

#### **IV. Board skills matrix**

##### **Current requirements**

70. The nomination committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the board at least annually and making recommendations on proposed changes to the board to complement the issuer's corporate strategy<sup>55</sup>.
71. In addition, where the board proposes a resolution to elect an individual as an INED, it should set out in the circular to shareholders (and/or explanatory statement accompanying the notice of the relevant general meeting) the perspectives, skills and experience that the individual can bring to the board<sup>56</sup>.
72. The Rules do not currently require issuers to disclose a board skills matrix.

##### **Issues**

73. Our research of issuers' annual report disclosures found that most issuers disclose the qualifications (and in some cases, skills) of their board in the directors' biography section, but do not disclose whether these qualifications and skills are aligned with, and support, the long-term strategic goals of the issuer.
74. Some peer jurisdictions require, on a "comply or explain" basis, issuers to maintain and disclose a board skills matrix (Australia)<sup>57</sup>, or to articulate how the combination of skills, talents, experience and diversity of directors serves its needs and plans (Singapore)<sup>58</sup>.

##### **Proposals**

75. We propose to introduce a new CP<sup>59</sup> requiring issuers to maintain a board skills matrix. As part of this proposal, issuers would also be required to disclose information on: (i) the existing skills mix of their boards; (ii) how the combination of skills, experience and diversity of their directors serves the purpose, values, strategy and desired culture of the company; and (iii) details and plans to acquire further skills.
76. The Exchange encourages issuers to refrain from simply listing out the directors' qualifications and experience in its board skills matrix and instead use it as a tool to expand the board's existing skills, assist in board refreshment and enhance board diversity.

##### **Rationale**

77. This proposal, together with our proposal to require regular board performance reviews (see paragraphs 64 to 66 above) aim to improve board effectiveness and assist in board refreshment and succession planning, an area of increasing focus for investors.

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<sup>55</sup> CP B.3.1(a).

<sup>56</sup> CP B.3.4(c).

<sup>57</sup> Recommendation 2.2 of the Australia CG Code.

<sup>58</sup> Rule 710(A)(2)(d) of the [Singapore Exchange Listing Rules](#).

<sup>59</sup> Newly added CP B.1.5.

78. The proposed disclosures reflect our expectation that the issuer’s assessment of the board skills matrix should focus on the alignment of skills and experience with the issuer’s strategic objectives and desired culture, and the steps to be taken if any gaps are identified.

### Consultation question

<b>Question 5</b>	Do you agree with our proposal to introduce a new CP requiring issuers to maintain a board skills matrix and make disclosure set out in CP B.1.5? Please provide reasons for your views.
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## V. Overboarding INED and directors’ time commitment

### Current requirements

79. Our CG Code states that where the board proposes a resolution to elect an individual as an INED and the proposed INED will be holding their seventh (or more) listed issuer directorship, the board should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why the board believes the individual would still be able to devote sufficient time to the board<sup>60</sup>.
80. The CG Code also states that directors should ensure that they can give sufficient time and attention to the issuer’s affairs and should not accept the appointment if they cannot do so<sup>61</sup>.

### Issues

81. As of 31 December 2023, there were 23 Overboarding INEDs serving on the boards of 181 issuers (approximately 7% of all issuers), with five Overboarding INEDs holding ten or more listed issuer directorships<sup>62</sup>
82. It is important that directors have the time and capacity to meet all of their responsibilities, including when there are unforeseen events and in times of crisis. Where a director takes on too many directorships (listed issuer directorships in particular) and/or has other significant outside commitments, this may compromise their ability to devote sufficient time and energy to properly discharge their duties in respect of each issuer on whose board they sit.
83. INEDs in particular have to be able to devote sufficient time and attention to the company’s affairs. They are expected to act in the interest of the company and shareholders as a whole and should, among other responsibilities, exercise independent judgment, scrutinize the issuer’s performance and take the lead where potential conflicts of interest arise<sup>63</sup>. The business environment in which companies operate is becoming increasingly complex, and the responsibilities of directors have also become more demanding.

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<sup>60</sup> CP B.3.4(b).

<sup>61</sup> CP B.2.1.

<sup>62</sup> This information captures directorships with companies listed on the Exchange only, and does not include directorships held with companies listed on other overseas exchanges.

<sup>63</sup> Issuers may refer to the Exchange’s guide “[A Snapshot of INEDs’ Roles and Responsibilities](#)” issued in November 2023, which provides an overview of INEDs’ key responsibilities and obligations to facilitate a better understanding of what is expected of INEDs and how they can fulfil their duties under the Listing Rules.

84. Mainland China has imposed a cap of three concurrent INED directorships that an individual can hold on its issuers<sup>64</sup>. The UK CG Code provides that full-time executive directors should not take on more than one non-executive director role in a FTSE 100 company or other significant commitments<sup>65</sup>. Overboarding is also an area of focus for institutional investors<sup>66</sup>.
85. It is the Exchange's practice when vetting IPOs to discourage the appointment, by a listing applicant, of INEDs who will be holding their seventh (or more) listed issuer directorship<sup>67</sup>. The Hong Kong Government also has a guideline for not appointing a person to serve as a non-official member on more than six advisory and statutory bodies at any one time to ensure a reasonable distribution of workload<sup>68</sup>.

## Proposals

86. We propose to introduce a new Listing Rule<sup>69</sup> that mandates a six-directorship cap on the number of Hong Kong listed issuer directorships<sup>70</sup> that an INED may hold. That means, an INED cannot take up a further director appointment if this would result in such individual holding more than six Hong Kong listed issuer directorships.
87. We propose that this new requirement be implemented over a three-year transition period to enable an orderly phasing out of Overboarding INEDs. The proposed Rule will apply from 1 January 2028 onwards. An Overboarding INED as at 31 December 2027 must comply with this new Rule by the conclusion of the earliest AGM after 31 December 2027 held by any issuer that he or she serves (i.e. the first AGM held amongst the issuers of which he or she is a director).
88. For IPO applicants, we propose a similar hard cap on the number of Hong Kong listed issuer directorships that their INEDs may hold. For A1 submissions filed on or after 1 January 2025 (such date being the proposed effective date of the revised CG Code and related Listing Rules), IPO applicants with Overboarding INEDs would not be accepted. IPO applicants should be mindful of the number of Hong Kong listed issuer directorships that their potential INED candidates hold and factor that into their appointment considerations.
89. In addition, we propose to introduce a new MDR<sup>71</sup> to require the nomination committee to annually assess and disclose its assessment (as part of its summary of work done)

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<sup>64</sup> Article 8 of the China Securities Regulatory Commission ("CSRC")'s [Measures for the Management of Independent Directors of Listed Companies](#) (*Chinese version only*).

<sup>65</sup> Provision 15 of the UK CG Code.

<sup>66</sup> For example, Glass Lewis' [2024 Benchmark Policy Guidelines for Hong Kong](#) states that from 2024 onwards, Glass Lewis will recommend that shareholders vote against a director who serves as an executive officer of any public company while serving on more than one additional external public company board, and any director who serves on more than five public company boards. BlackRock's [2024 Proxy Voting Guidelines for Hong Kong Securities](#) states that it expects companies to provide a clear explanation of the capacity of a board candidate to contribute in situations where such candidate is a director serving on more than six public company boards. When looking at the number of board mandates, BlackRock will consider if the board memberships are of listed companies in the same group and/or for similar sectors.

<sup>67</sup> Chapter 3.10 (Directors, Supervisors and Senior Management) of the Exchange's [Guide for New Listing Applicants](#).

<sup>68</sup> For details, please refer to the Home and Youth Affairs Bureau website for the definition of the "[Six-board Rule](#)".

<sup>69</sup> MB Rule 3.12A / GEM Rule 5.07A.

<sup>70</sup> For the avoidance of doubt, this covers directorships as executive directors, non-executive directors and INEDs.

<sup>71</sup> MDR paragraph E(d)(iii).

of each director's time commitment and contribution to the board, taking into consideration their professional qualifications and work experience, their listed issuer directorships (and other significant external time commitments), and other factors or circumstances relevant to their character, integrity, independence and experience.

90. In the assessment, the nomination committee should consider the different levels of time commitment involved for different board / board committee positions and evaluate each director's significant external time commitments by their nature and complexity<sup>72</sup>.
91. For the purpose of this requirement, (i) "significant external time commitments" would include all non-listed issuer directorship roles that involve significant time commitment, for example, directorships of overseas issuers, full-time occupations, consultancy work, major public service commitments, directorships of and involvement in statutory bodies or non-profit organizations, and (ii) "other factors or circumstances relevant to the director's character, integrity, independence and experience" would include any change or development in the director's individual situation or circumstance that should reasonably be taken into account in assessing whether he or she is able to effectively discharge his or her duties.
92. During the transition period, the current requirements in respect of the election of Overboarding INEDs will continue to apply.

## Rationale

93. In our 2010/2011 CG consultation, we sought market views on whether to introduce a Listing Rule that limits the number of INED positions that an individual may hold. At the time, a significant majority of respondents did not agree with imposing a hard cap. The reasons they cited included that a person's available time and attention is affected by a range of factors, and that introducing a hard cap may unfairly penalise competent, diligent INEDs who devote sufficient time to multiple directorships.
94. The demands upon an issuer and its board have become increasingly complex and time-consuming over time, and it is important to safeguard high quality decision-making on the board.
95. We recognise that an individual's available time and attention is affected by a range of commitments, including the individual's directorship roles (listed or non-listed), full or part-time occupations, commitments in public service, on statutory bodies or non-profit organisations and other commitments. Our proposal is focused on addressing the issue we have observed in our market, which is INEDs holding multiple directorships at Hong Kong listed issuers (see paragraph 81). We have not, therefore, proposed that an issuer counts other commitments when calculating whether a director has exceeded the proposed six-directorship cap. However, such other commitments may affect director effectiveness and so issuers should continue to consider other commitments as part of their nomination committee assessments (see paragraphs 89 to 91).

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<sup>72</sup> The assessment of time commitments should be considered on a case-by-case basis, taking the principle of proportionality into account. Time commitments are affected by several factors, such as the number of directorships, the size and context of the entities where directorships are held and the nature, scale and complexity of their activities, as well as other professional or personal commitments and circumstances. The assessment can be based on input provided by the individual director, and the professional judgement of the nomination committee. The [Guide to Fit and Proper Assessments](#) published by the European Central Bank can be a useful reference for discussion on how to conduct assessment on time commitment.

## Consultation questions

<b>Question 6</b>	<p>In relation to our proposal to introduce a “hard cap” of six listed issuer directorships that INEDs may hold, do you agree:</p> <p>(a) With the hard cap to ensure that INEDs are able to devote sufficient time to carry out the work of the listed issuers?</p> <p>(b) With the proposed three-year transition period to implement the hard cap?</p> <p>Please provide reasons for your views.</p>
<b>Question 7</b>	<p>Do you agree with the proposal to introduce a new MDR to require the nomination committee to annually assess and disclose its assessment of each director’s time commitment and contribution to the board? Please provide reasons for your views.</p>

## (B) Independence of INEDs

### Current requirements

96. The CG Code states that the further appointment of a Long Serving INED should be subject to a separate shareholders’ resolution, which states the reasons why the board (or the nomination committee) believes that the director is still independent and should be re-elected<sup>73</sup>.
97. An issuer whose INEDs are all Long Serving INEDs should: (a) disclose the length of tenure of each Long Serving INED in its circular to shareholders and/or explanatory statement accompanying the notice of the AGM; and (b) appoint a new INED at the forthcoming AGM<sup>74</sup>.
98. The Rules currently set no limit on the tenure of INEDs.

### Issues

99. The tenure of non-executive directors is also an area of focus for institutional investors who have stated that serving more than nine years is relevant to their determination of a non-executive director’s independence<sup>75</sup>.
100. As of 31 December 2023, there were approximately 1,500 directorships held by Long Serving INEDs on the boards of approximately 810 issuers (approximately 31% of all

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<sup>73</sup> CP B.2.3.

<sup>74</sup> CP B.2.4. Limb (b) of CP B.2.4 came into effect for the financial year commencing on or after 1 January 2023.

<sup>75</sup> For example, Glass Lewis’ [2024 Benchmark Policy Guidelines for Hong Kong](#) states that serving more than nine years could be relevant to the determination of a non-executive director’s independence, and that Glass Lewis will not consider a director to be independent after 12 years of service. BlackRock’s [2024 Proxy Voting Guidelines for Hong Kong Securities](#) states that it may consider voting against the re-election of directors who have been on the board for a significant period of time, especially if there is no evidence of board renewal. BlackRock believes independent directors who have been on the board for 12 years or longer should generally be re-classified as non-independent directors.



issuers listed on the Exchange). There were approximately 30 issuers (approximately 1.3% of all issuers) whose INEDs were all Long Serving INEDs. While the Exchange has observed a notable reduction in the number of issuers with all Long Serving INEDs since the introduction of new Long Serving INEDs requirements in the 2022 Update, a substantial percentage of issuers still retain Long Serving INEDs on their boards.

101. In our CG Disclosure Analysis, we noted that many issuers continue to cite satisfaction of the independence criteria set out in MB Rule 3.13 as a supporting reason for a Long Serving INED's independence. This in and of itself cannot address whether the Long Serving INED have independence of mind and remain capable of providing an independent and objective contribution to the board. Few issuers provided details on the process or discussions undertaken by the nomination committee and the board to determine that a Long Serving INED continues to be independent.
102. The Hong Kong Monetary Authority's guidance for the INEDs of authorised institutions in Hong Kong questions the independence of an INED if he or she has served on the board of that institution for more than nine years<sup>76</sup>. The Hong Kong government also has a guideline that stipulates not appointing non-official members to serve for more than six years in the same capacity with the same body to ensure a healthy turnover of members of advisory and statutory bodies<sup>77</sup>.
103. Regulators in the UK<sup>78</sup> and Australia<sup>79</sup> recognize in their corporate governance codes that a director's lengthy tenure on the board could impair (or appear to impair) their independence, and those in Singapore and Malaysia introduced tenure limits for independent directors in January 2023<sup>80</sup> and January 2022<sup>81</sup> respectively.

## Proposals

104. We propose a new Listing Rule to provide for a hard cap of nine years on the tenure of INEDs<sup>82</sup>. The Exchange will not consider a person to be independent if he or she has been an INED of an issuer for a period of nine years or more. Such individuals may continue to contribute to the board following the completion of their nine-year tenure but only in the re-designated capacity as non-executive directors ("**NED**").
105. The nine-year tenure would be calculated from an issuer's listing date (where an INED is appointed prior to an issuer's listing) or the date of appointment of the INED (where an INED is appointed after an issuer's listing). An INED's tenure would continue to accrue in the event of an issuer's post-listing corporate restructuring where the INED is transferred between companies within the same group as the issuer.

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<sup>76</sup> Paragraph 15(h) of the Hong Kong Monetary Authority's [guidance](#) titled "Empowerment of Independent Non-Executive Directors (INEDs) in the Banking Industry in Hong Kong" issued in December 2016.

<sup>77</sup> For details, please refer to the Home and Youth Affairs Bureau website for the definition of the "[Six-year Rule](#)".

<sup>78</sup> Provision 10 of the UK CG Code.

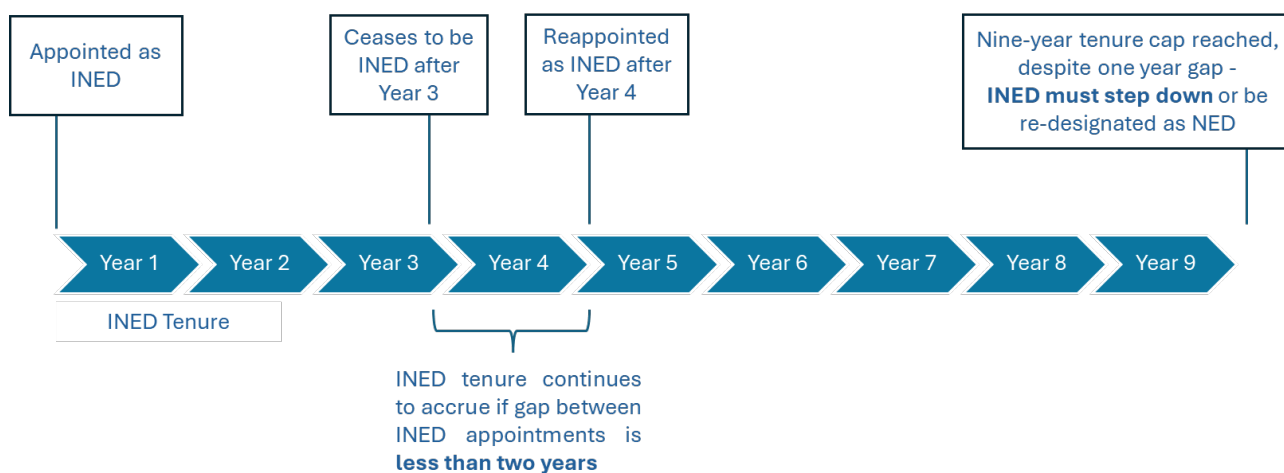
<sup>79</sup> Commentary to Recommendation 2.3 of the Australia CG Code.

<sup>80</sup> [Announcement](#) by Singapore Exchange Regulation, 11 January 2023. A transition period was introduced until the issuer's AGM held for the financial year ending on or after 31 December 2023.

<sup>81</sup> [Announcement](#) by Bursa Malaysia, 19 January 2022. The tenure limit for independent directors came into effect on 1 June 2023.

<sup>82</sup> MB Rule 3.13A / GEM Rule 5.09A.

106. If an INED temporarily ceases to be an INED for less than two years, and is subsequently re-appointed as an INED of the same issuer, such period will be counted towards the INED's tenure. The example below illustrates this calculation:



107. We propose that a previous Long Serving INED and, going forward, INEDs who reach the nine-year tenure cap may serve again as an INED of the same issuer after a cooling-off period of two years. During the cooling-off period, such individuals must not serve as a director of the relevant issuer, its holding company or any of their respective subsidiaries or any core connected persons of the issuer.
108. For the avoidance of doubt, the independence criteria of the Listing Rules (MB Rule 3.13 / GEM Rule 5.09) would remain applicable to the assessment of an individual's independence for any re-appointment of a previous Long Serving INED after the cooling-off period.
109. Similar to the recruitment process for all directors, issuers should conduct a fair, reasonable and open search process to identify suitable candidate(s). This process should begin with a thorough evaluation of the skills, experience and knowledge of the board, and the strategies of the company as a whole, to determine the requirements of the role and the board must select the most suitable candidate to fill a vacancy.
110. We propose to introduce a three-year transition period for the implementation of the new Listing Rule to ensure board continuity and provide sufficient time for affected issuers to conduct proper succession planning and adjust their board composition. The proposed Rule will apply from 1 January 2028 onwards. The Exchange will cease to consider a director who has been an INED of an issuer for a continuous period of nine years or more as at 31 December 2027 to be independent as at the conclusion of the next AGM of the issuer that follows 31 December 2027.
111. For a director whose nine-year tenure as an INED of an issuer ends on or after 1 January 2028, the Exchange will cease to consider such INED to be independent as at the conclusion of the next AGM of the issuer following the completion of the nine-year tenure.
112. During the transition period, the current requirements in respect of: (i) the re-election of Long Serving INEDs; and (ii) tenure disclosure and new INED appointment, where all the INEDs are Long Serving INEDs, will continue to apply. In respect of issuers with all Long Serving INEDs that deviate from the CP stating that they should appoint

a new INED at their forthcoming AGM (CP B.2.4(b)), during the transition period, such issuers should provide a reasoned explanation for the deviation in their CG Report.

113. Currently, the requirement to disclose the length of tenure only applies to Long Serving INEDs<sup>83</sup>. To improve transparency, we also propose to require all issuers to disclose the length of tenure and current period of appointment of every director in their CG Reports<sup>84</sup>. Where a director has been re-designated during their period of service on an issuer's board, an issuer should disclose the director's total length of tenure and specify when such a director was re-designated.

## Rationale

114. Where an INED has served on a board for an extended period of time, the INED's continued independence will be increasingly at risk given their familiarity with the issuer's management.
115. We stated in our previous CG consultation in 2021 that we would continue to monitor the issue of Long Serving INEDs, and may consider phasing out Long Serving INEDs gradually in the long term<sup>85</sup>. In light of the substantial percentage of issuers that still retain Long Serving INEDs on their boards, we are of the view that setting a clear limit on the tenure of INEDs would facilitate board renewal, encourage more structured succession planning and strengthen the independent voice on the board, which will in turn improve board diversity and board quality.
116. We acknowledge that a Long Serving INED may have accumulated valuable knowledge of, and familiarity with, the issuer's affairs and industry over time, therefore such persons may remain on the board in the capacity of NEDs.
117. Periodic board refreshment, in particular the appointment of new INEDs, can help avoid entrenchment, facilitate board diversity and bring new perspectives to the board. Effective succession planning at the board level enables the board to remain effective amidst an evolving business environment and is instrumental to ensuring the long-term success of the company. Where an issuer has INEDs who are approaching the nine-year cap of their tenure on the board, we encourage such issuer to provide further information in the CG Report on its succession planning and the steps that it intends to take in respect of the appointment of the relevant INED's successor.
118. The proposed duration of the cooling-off period aligns with the duration of the existing cooling-off period in the Listing Rules for professional advisers to serve as INEDs<sup>86</sup>.
119. Our proposed three-year transition period represents the length of one term of office, after which a director would be subject to retirement by rotation.

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<sup>83</sup> Pursuant to CP B.2.4(a), issuers whose INEDs are all Long Serving INEDs are required to disclose the length of tenure of each existing INED on a named basis in the circular to shareholders and / or explanatory statement accompanying the notice of the AGM.

<sup>84</sup> Revised MDR paragraph B(a).

<sup>85</sup> See paragraph 75 of the Exchange's [Consultation Paper](#) "Review of Corporate Governance Code and Related Listing Rules" issued in April 2021 and paragraph 59 of the [Consultation Conclusions](#) "Review of Corporate Governance Code & Related Listing Rules, and Housekeeping Rules Amendments" issued in December 2021.

<sup>86</sup> MB Rule 3.13(3) / GEM Rule 5.09(3).

120. Our proposed new disclosure requirement on director tenure information should help shareholders and potential investors locate this information in one place even though such information can already be derived from existing sources in the public domain<sup>87</sup>.

### Consultation questions

<b>Question 8</b>	<p>In relation to our proposal to introduce a “hard cap” of nine years on the tenure of INEDs, beyond which an INED will no longer be considered to be independent, do you agree:</p> <p>(a) With the proposed hard cap to strengthen board independence?</p> <p>(b) That a person can be re-considered as an INED of the same issuer after a two-year cooling-off period?</p> <p>(c) With the proposed three-year transition period in respect of the implementation of the hard cap?</p> <p>Please provide reasons for your views.</p>
<b>Question 9</b>	<p>Do you agree with the proposal to require all issuers to disclose the length of tenure of each director in the CG Report? Please provide reasons for your views.</p>

## (C) Board and workforce diversity

### Current requirements

121. The nomination committee (or the board) must have a board diversity policy and disclose such policy or a summary of it in the CG Report. The Exchange does not consider diversity to be achieved by a single gender board<sup>88</sup>, and single gender board issuers are required to appoint at least one director of a different gender no later than 31 December 2024<sup>89</sup>.
122. Issuers are required to make the following disclosures in their CG Report<sup>90</sup>:
- (a) the board diversity policy or a summary thereof, including any measurable objectives for implementation and progress on achieving those objectives;
  - (b) how and when board gender diversity will be achieved, numerical targets and timelines, and the measures adopted to develop a pipeline of potential successors to the board to achieve gender diversity; and
  - (c) the gender ratio in their workforce (including senior management), any plans or measurable objectives for achieving gender diversity and mitigating factors or circumstances which make achieving gender diversity more challenging or less relevant.

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<sup>87</sup> For example, director appointment announcements and the annual report.

<sup>88</sup> MB Rule 13.92 / GEM Rule 17.104.

<sup>89</sup> Note to MB Rule 13.92 / note to GEM Rule 17.104.

<sup>90</sup> MDR paragraph J.

123. The CG Code states that the board should also review the implementation and effectiveness of the issuer’s board diversity policy on an annual basis<sup>91</sup>.
124. We have also published guidance on the arrangements issuers should make during temporary deviations from the requirement that issuers have directors of different genders on the board<sup>92</sup>.

## Issues

125. As of 31 December 2023, approximately 17% of directors on the boards of listed issuers were female. The percentage of single gender board issuers was approximately 19%, and around 18% of issuers had 30% or more female directors on their board. While some progress has been made since the 2022 Update, these statistics suggest that diversity in the boardroom can be further improved. In particular, remaining single gender boards are reminded to proactively seek to appoint at least one director of a different gender before the 31 December 2024 deadline.
126. In the CG Disclosure Analysis, we observed that all the issuers had in place, and had conducted an annual review of, their board diversity policy. However, we also observed room for improvement in terms of the disclosure of numerical targets and timelines for achieving board diversity. In addition, a small portion of issuers failed to disclose their workforce gender ratio and plans / objectives (if any). Out of the non-single gender board issuers in the CG Disclosure Analysis, around half of them had one or more female directors on their mandatory board committees.
127. We note that Australia requires listed entities to set measurable objectives for achieving gender diversity on the board, among senior executives and across the workforce on a “comply or explain” basis<sup>93</sup>. In terms of disclosure of gender information, the UK requires disclosure of the gender identity of board and executive management<sup>94</sup>, as well as the gender balance of senior management and their direct reports<sup>95</sup>, while Australia requires disclosure of the proportions of men and women on the board, in senior executive positions and across the workforce<sup>96</sup>.
128. Regulators in the UK<sup>97</sup>, Australia<sup>98</sup> and Singapore<sup>99</sup> also recognize the value of having an appropriate balance of skills and perspectives on board committees. For example, the Australian CG Code recommends that consideration be given to ensuring that the nomination committee has an appropriate diversity of membership to avoid entrenching “group think” or other cognitive biases.

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<sup>91</sup> CP B.1.3.

<sup>92</sup> Current FAQ Series No. 17, FAQ No. 19F(1) of the Exchange’s FAQs.

<sup>93</sup> Recommendation 1.5 of the Australia CG Code.

<sup>94</sup> Listing Rule 9.8.6(10) of the [UK Listing Rules](#).

<sup>95</sup> Provision 23 of the UK CG Code.

<sup>96</sup> Recommendation 1.5 of the Australia CG Code.

<sup>97</sup> Rule 7.2.8AR of the [UK Disclosure Guidance and Transparency Rules](#).

<sup>98</sup> Commentary to Recommendation 2.1 of the Australia CG Code.

<sup>99</sup> Provision 2.4 of the Singapore CG Code.

## Proposals

129. To further promote gender diversity and ensure that appropriate focus is also placed on developing a diverse pipeline of candidates for the board, we propose the following:

- (a) Gender diversity on the nomination committee: to require issuers to have at least one director of a different gender on the nomination committee<sup>100</sup>;
- (b) Annual review of board diversity policy: to upgrade this from a CP to a MDR<sup>101</sup>.

We propose drafting changes to the existing language in MDR paragraph J (Diversity) to clarify the relevant requirements. The streamlined language will not change the board diversity-related information that issuers are required to disclose under MDR paragraphs J(a) and J(b), nor our expectation that issuers must set measurable objectives with numerical targets and timelines for implementing that policy;

- (c) Workforce diversity policy: to require issuers to have and disclose a diversity policy for their workforce (including senior management)<sup>102</sup>.

There may be different diversity considerations at the board level and the workforce level. We recognize that the demographics in a particular industry or country where an issuer operates may make the formulation of diversity targets on a workforce level more challenging. As such, for the workforce level, issuers are only required, at this stage, to disclose “any plans or measurable objectives” for achieving gender diversity (to be distinguished from the requirement at the board level);

- (d) Disclosure of gender ratio: to require separate disclosure of the gender ratio of: (i) senior management and (ii) the workforce (excluding senior management)<sup>103</sup>; and
- (e) Arrangements during temporary deviations: to codify the Exchange’s existing guidance on the arrangements during temporary deviations from the requirement for issuers to have directors of different genders on the board<sup>104</sup>.

From 1 January 2025 onwards (i.e. when the transition period for single gender board issuers expires), if an issuer fails at any time to have directors of different genders on the board (e.g. where the only female director resigns), it would be required to immediately publish an announcement containing the relevant details and reasons<sup>105</sup>. The issuer must then appoint appropriate member(s) to the board to re-comply with such requirement within three months after failing to meet such requirement.

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<sup>100</sup> Newly added CP B.3.5.

<sup>101</sup> Revised MDR paragraph J(a).

<sup>102</sup> Revised MB Rule 13.92(1) / GEM Rule 17.104(1), as well as revised MDR paragraph J(b).

<sup>103</sup> Revised MDR paragraph J(c).

<sup>104</sup> New MB Rule 13.92(2) / GEM Rule 17.104(2).

<sup>105</sup> The existing guidance is set out in FAQ Series No.17, FAQ No.19F(1). The arrangement provides transparency to the market on the issuer’s plan to rectify the temporary deviation.

## Rationale

130. Diversity is a key driver of board performance and quality decision-making. The board should have an appropriate level of diversity of thought and background in its composition to reduce the risk of “group think”. Greater boardroom diversity contributes to more constructive debate and more resilient decision-making. In addition, efforts to promote greater diversity and inclusion should extend beyond the boardroom to the wider workforce. It is important to improve diversity at each level of the company to facilitate the goal of increased diversity at the senior level.
131. Board committees play a crucial role in overseeing various company functions. Given the nomination committee’s key role in the appointment and re-appointment of directors, as well as succession planning, we are of the view that improved gender diversity on this committee will facilitate the development of a more diverse talent pipeline within the company.
132. Having a workforce diversity policy in place will assist issuers to set targets and objectives across the company.
133. The Listing Rules already require issuers to have and disclose a board diversity policy. Having observed full compliance with the CP on the annual review of the implementation of the board diversity policy during the CG Disclosure Analysis, we propose to upgrade this CP to a MDR.
134. Currently, issuers are required to disclose their workforce gender ratio (including senior management) in the CG Report. Since diversity at the senior management level is a helpful indicator of an issuer’s progress on, and commitment to, diversity, to improve the transparency of disclosure, we propose to revise the relevant MDR to require separate disclosure of the senior management gender ratio and the workforce gender ratio (excluding senior management).

## Consultation questions

<b>Question 10</b>	Do you agree with our proposal to introduce a CP requiring issuers to have at least one director of a different gender on the nomination committee? Please provide reasons for your views.
<b>Question 11</b>	Do you agree with our proposal to introduce a Listing Rule to require issuers to have and disclose a diversity policy for their workforce (including senior management)? Please provide reasons for your views.
<b>Question 12</b>	Do you agree with our proposal to upgrade from a CP to a MDR the requirement on the annual review of the implementation of an issuer’s board diversity policy? Please provide reasons for your views.
<b>Question 13</b>	Do you agree with our proposal to require as a revised MDR separate disclosure of the gender ratio of: (i) senior management; and (ii) the workforce (excluding senior management) in the CG Report? Please provide reasons for your views.
<b>Question 14</b>	Do you agree with our proposal to codify the arrangements during temporary deviations from the requirement for issuers to have directors of different genders on the board as set out in draft MB Rule 13.92(2) in Appendix I? Please provide reasons for your views.

## (D) Risk management and internal control

### Current requirements

135. Section D.2 of the CG Code sets out various CPs and RBPs in respect of risk management and internal controls. Among other requirements, the board should oversee the issuer's RMIC Systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' RMIC Systems has been conducted at least annually and report to shareholders that it has done so in its CG Report<sup>106</sup>. Issuers should also disclose in the CG Report a narrative statement on how they have complied with the risk management and internal control CPs during the reporting period<sup>107</sup>.
136. Issuers who report in the CG Report that they have conducted a review of the effectiveness of their RMIC Systems are required to disclose the following<sup>108</sup>:
- (a) whether the issuer has an internal audit function;
  - (b) how often the RMIC Systems are reviewed and the period covered; and
  - (c) whether the issuer considers its RMIC Systems effective and adequate.
137. It is a RBP in the CG Code for the board to disclose in the CG Report that it has received a confirmation from management on the effectiveness of the issuer's RMIC Systems<sup>109</sup>, and details of any significant areas of concern<sup>110</sup>.

### Issues

138. In the performance of its enforcement function the Exchange has found that disciplinary cases often involve failures to establish effective RMIC Systems, or inadequate monitoring of the RMIC Systems in place to ensure their continued effectiveness.
139. Similarly, the Securities and Futures Commission ("**SFC**") and Accounting and Financial Reporting Council ("**AFRC**") have noted cases where the lack of effective risk management and internal controls put in jeopardy issuers' assets, fraud prevention, and the accuracy of financial reports<sup>111</sup>, and that it is the duty of the board to take reasonable steps to ensure that an issuer's RMIC Systems are effective.
140. While we noted in the CG Disclosure Analysis that almost all sample issuers disclosed a summary of their existing RMIC Systems, we also observed that such disclosure often lacked sufficient detail to enable an understanding of the review process to properly support the issuers' assessment and the confirmations that their RMIC Systems remained effective.

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<sup>106</sup> CP D.2.1.

<sup>107</sup> CP D.2.4.

<sup>108</sup> MDR paragraph H.

<sup>109</sup> RBP D.2.8.

<sup>110</sup> RBP D.2.9.

<sup>111</sup> [Joint Statement](#) of the SFC and AFRC in relation to loans, advances, prepayments and similar arrangements made by listed issuers dated 13 July 2023.



141. While our existing requirements for issuers to conduct (at least) annual reviews of their RMIC Systems' effectiveness and disclosures of such reviews in the CG Report are broadly in line with the requirements from other regulators<sup>112</sup>, recent developments in the UK and Singapore<sup>113</sup> suggest that there is a trend to tighten regulatory requirements as to the review process undertaken by issuers and the confirmation of their RMIC Systems' effectiveness<sup>114</sup>.

## Proposals

142. We propose to emphasise in the relevant Principle<sup>115</sup> the board's responsibility for the issuer's risk management and internal controls and for the (at least) annual review of their RMIC Systems' effectiveness. These proposed amendments are not intended to expand the board's existing responsibilities, but to serve as a reminder to boards and directors of their importance.
143. We also propose to upgrade the requirement to conduct (at least) annual reviews of RMIC Systems' effectiveness to a mandatory one<sup>116</sup>, and require detailed disclosures on:
- (a) the RMIC Systems in place (including any significant changes made to the RMIC Systems);
  - (b) the process through which the review of the RMIC Systems was conducted;
  - (c) a confirmation from the board on the appropriateness and effectiveness of the RMIC Systems, as well as information supporting the board's conclusion (including confirmations received (as applicable) from management, the relevant board committee(s) with responsibility for the issuer's RMIC Systems, any other internal departments, the issuer's independent auditors and/or other external providers); and
  - (d) details of any significant control failings or weaknesses identified during the review and/or previously reported but unresolved, and any remedial steps taken or proposed.

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<sup>112</sup> Provision 28 of the UK CG Code; Recommendations 4.2 and 7.1 of the Australia CG Code.

<sup>113</sup> Rule 1207(10) of the [Singapore Exchange Listing Rules](#) makes it mandatory for issuers to disclose in their annual report a comment from the board on the adequacy and effectiveness of the issuer's risk management and internal controls (including financial, operational, compliance and information technology controls) and a statement from the audit committee whether it concurs with the board's comment, in addition, the disclosure in the annual report must also include any material weaknesses identified and the steps taken to address them.

<sup>114</sup> The UK Financial Reporting Council (FRC) [announced on 22 January 2024](#) that the UK will update its CG Code to require on a "comply or explain" basis disclosure in the annual report how boards have monitored and reviewed the effectiveness of the internal controls and require a declaration from the board that the material controls are effective as at the balance sheet date and issuer will have to disclose a description of any material controls which have not operated effectively, the action taken, or proposed, to improve them and any action taken to address previously reported issues (Updated provision 29 of the UK CG Code 2024).

<sup>115</sup> Revised Principle D.2:

The board is also responsible for ensuring that the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems is reviewed at least annually, and management should provide a confirmation to the board on the effectiveness of these systems (emphasis added).

<sup>116</sup> Revised MDR paragraph H (Risk Management and Internal Controls).

144. We also propose to clarify and streamline the drafting of the relevant CPs<sup>117</sup> on the scope of the reviews of the RMIC Systems' effectiveness. The proposed changes mainly reflect the revised wordings of the Principle and MDR regarding the proposals (set out in paragraphs 142 and 143 above) and reorganise the existing requirements on the scope of the reviews.
145. The re-drafted relevant CPs set out areas that are expected to be included in the review of the RMIC Systems, which are not meant to be exhaustive.
146. HKICPA's "[AATB 1 Assistance Options to New Applicants and Sponsors in connection with Internal Controls over Financial Reporting](#)" provides guidance on the scope and depth of matters which a comprehensive internal controls assessment needs to consider. This includes Appendix 3 of AATB 1 which contains illustrative areas of focus for a review of internal controls.<sup>118</sup>
147. The Exchange will also issue guidance, on its website, to which issuers should refer when formulating the scope for the review of their RMIC Systems<sup>119</sup>.
148. Each issuer must consider its own particular circumstances and risk profile to design appropriate processes for the reviews and ensure that the reviews have been conducted properly.

## Rationale

149. Good corporate governance starts with having in place effective RMIC Systems. Given their importance, issuers and their boards must adopt a process of continuous monitoring and regular reviews of the RMIC Systems' effectiveness. This is not a "box-ticking" exercise, as each issuer's business objectives and risk profile are different and are subject to changes and developments on an ongoing basis. Issuers should also make detailed disclosure on the review of their RMIC Systems' effectiveness to provide transparency and accountability for investors and the market.
150. Our proposals aim to strengthen board accountability and reporting on risk management and internal controls and enhance transparency.

## Consultation questions

<b>Question 15</b>	<p>Do you agree with our proposal to:</p> <p>(a) emphasise in Principle D.2 the board's responsibility for the issuer's risk management and internal controls and for the (at least) annual reviews of the effectiveness of the risk management and internal control systems; and</p> <p>(b) upgrade the requirement to conduct (at least) annual reviews of the effectiveness of the issuer's risk management and internal control systems to mandatory and require the disclosures set out in MDR paragraph H?</p>
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<sup>117</sup> Revised CP D.2.1.

<sup>118</sup> Please also see the Exchange's "[Enforcement Bulletin](#)" dated February 2022, which provides useful guidance on what constitutes effective RMIC Systems.

<sup>119</sup> See Note to revised MDR paragraph H.

Please provide reasons for your views.

**Question 16**

Do you agree with our proposal to refine the existing CPs in section D.2 of the CG Code setting out the scope of the (at least) annual reviews of the risk management and internal control systems? Please provide reasons for your views.

## (E) Dividends

### Current requirements

151. The CG Code states that issuers should have a policy on payment of dividends and disclose such policy in the annual report<sup>120</sup>. In addition, issuers should disclose the rates of dividend paid or proposed on each class of shares in the financial statements presented in the preliminary results announcements, interim report and annual report<sup>121</sup>; and any arrangement under which a shareholder has waived or agreed to waive any dividends in the annual report<sup>122</sup>.
152. Issuers are required to publish a notice of any board meeting at which the declaration, recommendation or payment of a dividend is expected to be decided<sup>123</sup>, and to subsequently publish an announcement of the board's decision on whether to declare, recommend or pay any dividend<sup>124</sup>.

### Issues

153. Our current requirements on disclosure of an issuer's dividend policy are in line with other major jurisdictions, and we observed that almost all sample issuers had complied with the current requirements in the CG Disclosure Analysis<sup>125</sup>.
154. However, we note that action has been taken, in certain jurisdictions, to implement a broad range of measures targeted at improving listed companies' capital management. For example, Japan<sup>126</sup> and South Korea<sup>127</sup> have both introduced initiatives to improve their listed issuers' capital efficiency and to encourage listed issuers to disclose their value enhancement efforts.
155. Other jurisdictions, such as Singapore and Mainland China have focussed on shareholder return and require issuers to disclose reasons for not declaring

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<sup>120</sup> CP F.1.1.

<sup>121</sup> Paragraph 4(3) of Appendix D2 to the MB Listing Rules / GEM Rule 18.50B(3).

<sup>122</sup> Paragraph 17 of Appendix D2 to the MB Listing Rules / GEM Rule 18.31.

<sup>123</sup> MB Rule 13.43 / GEM Rule 17.48.

<sup>124</sup> MB Rule 13.45 / GEM Rule 17.49.

<sup>125</sup> Compliance rate with CP F.1.1 of the CG Code: 99.5%.

<sup>126</sup> ["Action to Implement Management that is Conscious of Cost of Capital and Stock Price"](#) published by the Tokyo Stock Exchange, 31 March 2023.

<sup>127</sup> [Press release](#) on its Corporate Value-up Program issued by the South Korea Financial Services Commission, 26 February 2024.

dividends<sup>128</sup>. Mainland China further requires issuers who do not declare dividends to disclose measures to enhance investor returns<sup>129</sup>.

## Proposals

156. To improve transparency and accountability regarding issuers' dividend policy, we propose to upgrade the current CP requirement to a mandatory requirement, and to require enhanced disclosure. We propose to require issuers who have a dividend policy to:
- (a) disclose the aim or objective of the policy, as well as the key factors that the board will take into account when deciding whether to declare, recommend or pay any dividend; and
  - (b) provide a confirmation that all dividend decisions made by the board during the reporting period were made in accordance with the issuer's dividend policy (or if not, an explanation of any deviations from the issuer's dividend policy)<sup>130</sup>.
157. We propose to require issuers who do not have a dividend policy to state this fact and disclose the reason(s) for the absence of such policy<sup>131</sup>.
158. We also propose to require disclosure (regardless of whether the issuer has a dividend policy) in respect of the board's dividend decisions, of the following:
- (a) an explanation of the reason(s) for any material variation in the dividend rate between a dividend declared during the reporting period compared to that for the previous corresponding period; and
  - (b) where the board decided not to declare any dividend, the reason(s) for its decision and the measures that the issuer intends to take to enhance investors' return (if any)<sup>132</sup>.
159. Issuers should disclose reasons that are based on their unique circumstances and avoid boilerplate language. Where earnings are retained, issuers should explain how such earnings will be used and link that to the issuer's business model, strategy and objectives.

## Rationale

160. Dividend payments are an important means of investor return and a basic component of investment decision-making. Consistent and sustainable dividend payouts are an indication of an issuer's stability and future prospects. The board's approach to dividend payments should be clearly articulated in the issuer's dividend policy to enable investors to assess the issuer's capital discipline.

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<sup>128</sup> For example, Singapore (see Rule 704(24) of the [Singapore Exchange Listing Rules](#)) and Mainland China (see Article 8 of the CSRC's [Listing Regulation Guidance No.3 – Cash Dividends of Listed Companies \(2023 Amendments\)](#) ("**CSRC Cash Dividend Guidelines**") (*Chinese version only*)).

<sup>129</sup> For example, Mainland China (see Article 8 of the CSRC Cash Dividend Guidelines).

<sup>130</sup> MDR paragraph M(a).

<sup>131</sup> MDR paragraph M(b).

<sup>132</sup> MDR paragraph M(c)(ii).

161. Often, a board's decision as to whether to declare, recommend or pay any dividend to shareholders will be subject to a range of factors, including but not limited to the issuer's financial position, expected working capital requirements, future plans and wider market / business conditions. Investors are keen to understand the board's decision-making around dividends. In particular, where the board decides to retain funds and to not pay dividends, this decision should be clearly stated and explained.
162. Our proposals aim to safeguard shareholder interest and promote a better understanding of board stewardship and issuers' capital management aims. The proposals are also consistent with recent international regulatory developments. Quality dividend disclosures would facilitate investors in making more informed investment decisions.

### Consultation question

<b>Question 17</b>	Do you agree with our proposal to introduce a new MDR requiring specific disclosure of the issuer's policy on payment of dividends and the board's dividend decisions during the reporting period? Please provide reasons for your views.
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## (F) Other minor Rule amendments

### Minor Rule amendments

163. We propose to make the following minor amendments to the Listing Rules:

#### I. Requirement for issuers to set a record date

164. A "record date" is the date on which an issuer will determine the identity of securities holders eligible for certain corporate actions, for example, attending and voting at the general meeting or receiving entitlements.
165. The Listing Rules stipulate a deadline by which issuers must announce any book closure<sup>133</sup>. Where an issuer decides on a record date without book closure, the book closure requirements apply to the record date.
166. There is currently no Listing Rule requirement for issuers to set a record date. The expectation for issuers to do so for general meetings and for entitlements is set out in the Exchange's guidance materials only<sup>134</sup>, which do not form part of the Listing Rules and are not binding on issuers.
167. We propose to codify our existing guidance by revising the Listing Rules to require issuers to set a record date for general meetings and for receiving entitlements<sup>135</sup>. The existing announcement and minimum trading period requirements for book closures will be amended accordingly.

<sup>133</sup> MB Rule 13.66(1) / GEM Rule 17.78(1).

<sup>134</sup> Paragraph 3.8(i) of the Exchange's [Guide on Distribution of Dividends](#) and Other Entitlements and paragraph 3.4(f) of the Exchange's [Guide on General Meetings](#).

<sup>135</sup> Revised MB Rule 13.66(1) / GEM Rule 17.78(1).

168. Setting a clear deadline will provide clarity to securities holders and the market as to when the identity of securities holders is to be determined for the purpose of determining eligibility to participate in relevant corporate events. This is in line with the requirements of other major jurisdictions such as the US<sup>136</sup>, UK<sup>137</sup> and Mainland China<sup>138</sup>. A clear record date will also enable market intermediaries to take actions appropriate to the corporate event in a timely manner, such as the processing of voting instructions by Exchange participants and the processing of shareholder instructions by share registrars.
169. We do not propose to specify the timing of the record date in the Listing Rules. This is because the optimum time period varies for different corporate events and there is no standard practice across overseas markets on the timing of the record date. Nonetheless, issuers would be reminded in our guidance that it is in the interest of shareholders for the time interval between the record date and the payment date for entitlements to be as short as practicable.
170. A short time interval between the record date and the date of the general meeting help ensure that only persons with an interest in the items on the agenda of the general meeting are eligible to vote on those items, thereby mitigating the risk of “empty voting” by persons who have sold their shares after the record date but prior to the meeting.

### Consultation question

**Question 18** Do you agree with our proposal to introduce a Listing Rule requirement for issuers to set a record date to determine the identity of security holders eligible to attend and vote at a general meeting or to receive entitlements? Please provide reasons for your views.

## II. Disclosure on modified auditors’ opinion

171. Currently, the Listing Rules require an issuer to provide more detailed and/or additional information if its financial statements do not give a true and fair view of its state of affairs, results of operations and cashflows<sup>139</sup>. However, there is no specific requirement on the information to be disclosed in such circumstances<sup>140</sup>.
172. In our previous “Review of Issuers’ Annual Reports”<sup>141</sup>, we recommended that issuers who receive a modified auditors’ opinion enhance their disclosure in the annual reports by disclosing: (a) details of the modifications and their impact on the issuer’s financial position; (b) management’s position and basis on major judgmental areas<sup>142</sup>, and how

<sup>136</sup> Section 401.03 of the [New York Stock Exchange Listed Company Manual](#) (in respect of general meetings) and Rule 10b-17 of the [Securities Exchange Act of 1934](#) (in respect of dividend entitlements).

<sup>137</sup> Section 360B(2) of the [Companies Act 2006](#) (in respect of general meetings) and Rule 9.7.A.2(3) of the [UK Listing Rules](#) (in respect of dividend entitlements).

<sup>138</sup> Article 18 of the CSRC’s [Rules for Shareholders Meetings of Listed Companies \(2022 Revised Version\)](#) (in respect of general meetings) (*Chinese version only*) and Article 32 of the CSRC’s [Guide to the Articles of Association of Listed Companies \(2022 Revised Version\)](#) (*Chinese version only; guidance*).

<sup>139</sup> Paragraph 3 of Appendix D2 to the MB Rules / GEM Rule 18.47.

<sup>140</sup> Paragraph 3.1 of Appendix D2 to the MB Rules / Note to GEM Rule 18.47 provides that if a listed issuer is in doubt as to what more detailed and/or additional information should be provided, it should apply to the Exchange for guidance.

<sup>141</sup> See the Exchange’s latest report “[Review of Issuers’ Annual Reports 2023](#)” published in January 2024.

<sup>142</sup> For example, basis for impairment or valuation of assets.

it is different from that of the auditors; (c) the audit committee's view towards the modifications, and whether the audit committee has reviewed and agreed with management's position concerning major judgmental area; and (d) the issuer's proposed plans to address the modifications.

173. These recommended disclosures have now been in effect for several years and issuers generally follow our recommendations.

174. We propose to codify the recommended disclosures in paragraph 172 above into the Listing Rules<sup>143</sup>.

### Consultation question

<b>Question 19</b>	Do you agree with our proposal to codify our recommended disclosures in respect of issuers' modified auditors' opinions into the Listing Rules? Please provide reasons for your views.
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### III. Financial information

175. Currently, the CG Code requires management to provide the board with monthly updates that give a balanced and understandable assessment of the issuer's performance, position and prospects<sup>144</sup>. The CG Code further explains what information may be included in such monthly updates<sup>145</sup>.

176. Directors need timely, high-quality information to facilitate their thorough consideration of issues prior to, and informed discussions at, board meetings. Monthly updates should include monthly management accounts and management updates, which are important for the assessment of the issuer's financial performance and position and the identification of any abnormalities.

177. The management is responsible for the provision of the relevant information to the board, and directors should also proactively request for additional information or seek clarification from the management if the information provided is inadequate or lacks clarity.

178. In the existing CP, we propose to clarify our expectations with regards to the provision of monthly updates and to make it clear that directors are entitled to and should request such information if the management does not provide it.

### Consultation question

<b>Question 20</b>	Do you agree with our proposal to clarify our expectation of the provision of monthly updates in CP D.1.2 and the note thereto? Please provide reasons for your views.
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<sup>143</sup> Revised paragraph 3.1 of Appendix D2 to the MB Rules / Note to GEM Rule 18.47.

<sup>144</sup> CP D.1.2.

<sup>145</sup> Note to CP D.1.2.

#### IV. Align nomination committee requirements with existing audit committee and remuneration committee requirements

179. Currently, an issuer must establish a nomination committee chaired by the chairman of the board or an INED and comprising a majority of INEDs<sup>146</sup>. Issuers with a weighted voting rights structure must establish a nomination committee that complies with the Principle and Code Provisions applicable to the nomination committee in the CG Code (section B.3 in Part 2 of Appendix C1 of the MB Rules). Also, the nomination committee must be chaired by an INED and comprise of a majority of INEDs<sup>147</sup>.
180. We propose to revise the Listing Rules to align the requirements on establishing written terms of reference for the committee and the arrangements during temporary deviations from requirements<sup>148</sup> so that these are the same for the nomination committee, the audit committee and the remuneration committee<sup>149</sup>. The purpose of this proposal is to ensure consistency of approach across these three mandatory board committees.
181. The current arrangements during temporary deviations from board committee requirements provide transparency to the market on the issuer's plan to rectify its temporary deviation(s). The Exchange will take appropriate disciplinary action for a breach of the relevant Rule(s)<sup>150</sup>.

#### Consultation question

<b>Question 21</b>	Do you agree with our proposal to align requirements for the nomination committee, the audit committee and the remuneration committee on establishing written terms of reference for the committee and the arrangements during temporary deviations from requirements as set out in draft Main Board Listing Rules 3.23, 3.27, 3.27B, 3.27C and 8A.28A in Appendix I? Please provide reasons for your views.
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<sup>146</sup> MB Rule 3.27A / GEM Rule 5.36A.

<sup>147</sup> MB Rules 8A.27 and 8A.28.

<sup>148</sup> Revised MB Rules 3.23 and 3.27 / GEM Rule 5.33 and 5.36 and new MB Rules 3.27B and 3.27C / GEM Rules 5.36B and 5.36C (for all issuers except for issuers with a weighted voting rights structure), and new MB Rule 8A.28A (for issuers with a weighted voting rights structure).

<sup>149</sup> The Listing Rules (MB Rules 3.23 and 3.27 / GEM Rules 5.33 and 5.36) provide that upon failing to meet the board committee requirements applicable to the audit and/or remuneration committees, an issuer is required to publish an announcement containing relevant details and reasons and rectify such deviation within three months. In respect of the nomination committee, the same arrangement is set out [HKEX FAQ Series No. 17, FAQ No. 12B](#).

<sup>150</sup> Upon failing to meet the board committee requirements, an issuer is required to publish an announcement containing relevant details and reasons, and to rectify such deviation within three months. If the issuer is unable to rectify such deviation within the three-month period, it will need to obtain a waiver from the Exchange which, if not granted by the Exchange, would result in the issuer being in breach of the relevant Rule requirement. Appropriate disciplinary action would follow.



## Part II: Implementation dates and transitional arrangements

182. We propose that the revised CG Code and related Listing Rules come into effect on 1 January 2025 and apply to CG Reports and annual reports for financial years commencing on or after 1 January 2025, with transitional arrangements in respect of the proposals on Long Serving INEDs and overboarding as set out below.
183. To ensure board continuity, we acknowledge that more time may be needed to allow affected issuers to appoint suitable INEDs and adjust their board composition. Similarly, we understand that, in respect of the proposed cap on overboarding, more time may be needed to enable an orderly phasing out of Overboarding INEDs. We therefore propose a three-year transition period for the proposed caps on the tenure of Long Serving INEDs and overboarding, which is in line with the three-year transition for phasing out single-gender boards. These proposed Rules will apply from 1 January 2028 onwards, with compliance required by the conclusion of the AGM following 31 December 2027 at the latest.

### Consultation question

<b>Question 22</b>	Do you agree with the proposed implementation date of financial years commencing on or after 1 January 2025, with transitional arrangements <sup>151</sup> as set out in paragraphs 182 to 183 of the Consultation Paper? Please provide reasons for your views.
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<sup>151</sup> See Question 6(b) (in respect of overboarding) and Question 8(c) (in respect of Long Serving INEDs) of the Consultation Paper.

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# APPENDIX I: PROPOSED AMENDMENTS TO THE MAIN BOARD LISTING RULES

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## Part A: Amendments to Main Board Listing Rules

### Chapter 3

#### GENERAL

##### Directors

...

3.09F Every director of a listed issuer must receive continuous professional development in each financial year of the issuer.

Director  
Training

3.09G The continuous professional development required by rule 3.09F must cover at least the following topics:

- (a) the roles, functions and responsibilities of the board, its committees and its directors, and board effectiveness;
- (b) issuers' obligations and directors' duties under Hong Kong law and the Listing Rules, and key legal and regulatory developments (including Listing Rule updates) relevant to the discharge of such obligations and duties;
- (c) corporate governance and ESG matters (including developments on sustainability or climate-related risks and opportunities relevant to the issuer and its business);
- (d) risk management and internal controls; and
- (e) updates on industry-specific developments, business trends and strategies relevant to the issuer.

3.09H First-time directors must complete no less than 24 hours of the continuous professional development required by rule 3.09F within 18 months of the date of their appointment.

- Notes:
1. For the purpose of this rule, "first-time directors" means individuals who: (a) are appointed as a director of an issuer listed on the Exchange for the first time (i.e. have no prior experience as a director of an issuer listed on the Exchange); or (b) have not served as a director of an issuer listed on the Exchange for a period of three years or more prior to their appointment.
  2. If a first-time director ceases to be a director of an issuer prior to the completion of 24 hours of continuous professional development, the requirement in rule 3.09H would reset. The individual would have to complete the minimum training of 24 hours within 18 months from subsequently being appointed as a director of an issuer listed on the Exchange.

...

3.12 In addition to fulfilling the requirements and continuing obligations of rules 3.08, 3.09, 3.12A, and 3.13, and 3.13A, every independent non-executive director must have the character, integrity, independence and experience to fulfil his role effectively. The Exchange may stipulate a minimum number of independent non-executive directors which is higher than three if, in the opinion of the Exchange, the size of the board or other circumstances of the listed issuer justify it.

3.12A An independent non-executive director must not concurrently hold more than six listed issuer directorships.

Over-boarding

Note: Independent non-executive directors must comply with this rule from 1 January 2028 onwards. An independent non-executive director who concurrently holds more than six listed issuer directorships as at 31 December 2027 must comply with this rule by the conclusion of the earliest annual general meeting held after 31 December 2027 by any listed issuer that such director serves.

...

3.13A The Exchange will not consider a director to be independent if the individual has been an independent non-executive director of the issuer for a period of nine years or more.

Long serving INEDs

- Notes:
1. This rule applies from 1 January 2028 onwards.
  2. For the purpose of this rule, the “period of nine years” shall be counted from the date of appointment of an independent non-executive director or (where the appointment occurs before listing) the listing date of the issuer. Where the individual ceases to be an independent non-executive director of the issuer for period(s) of less than two years, such period(s) will be counted towards the calculation of the tenure.
  3. If a director has been an independent non-executive director of an issuer for nine years or more as at 31 December 2027, the Exchange will cease to consider such individual to be independent as at the conclusion of the next annual general meeting of the issuer that follows 31 December 2027.
  4. For an independent non-executive director whose nine-year tenure ends on or after 1 January 2028, the Exchange will cease to consider such individual to be independent as at the conclusion of the next annual general meeting of the issuer that follows the end of the director’s nine-year tenure.
  5. The Exchange will permit an individual who has previously served as an independent non-executive director on the board of a listed issuer for nine years or more to be subsequently re-appointed as an independent non-executive director of the same issuer, provided that such individual (a) satisfies the independence guidelines set out in rule 3.13; and (b) has not, at any time during

the two years immediately prior to the date of their proposed re-appointment, been a director of the listed issuer, of its holding company or of any of their respective subsidiaries or of any core connected persons of the listed issuer.

...

## Chapter 13

### EQUITY SECURITIES

#### CONTINUING OBLIGATIONS

...

#### GENERAL

##### Environmental and Social Matters

...

13.92 (1) ~~The issuer nomination committee (or the board) shall~~ must have a policy(ies) concerning the diversity of its board members and the diversity of its workforce (including senior management), and ~~shall~~ must disclose ~~the policy on diversity such policy(ies)~~ or a summary of ~~the policy~~ the policy(ies) in the corporate governance report.

Diversity

(2) Board diversity differs according to the circumstances of each issuer. While diversity of board members can be achieved through consideration of a number of factors (including but not limited to gender, age, cultural and educational background, or professional experience), the Exchange will not consider diversity to be achieved for a single gender board. If the issuer is unable at any time to meet the requirement to have directors of different genders on the board, it must immediately publish an announcement containing the relevant details and reasons. The issuer must use all reasonable endeavours to appoint appropriate member(s) to the board to meet such requirement on a timely basis, and in any case within three months after being unable to meet such requirement.

*Note: ~~As a transitional arrangement, issuers with a single gender board will have to appoint at least a director of a different gender on the board no later than 31 December 2024.~~*

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## Part B: Amendments to Appendix C1

### Appendix C1 CORPORATE GOVERNANCE CODE PART 1 - MANDATORY DISCLOSURE REQUIREMENTS

To provide transparency, issuers must include the following information for the accounting period covered by the annual report and significant subsequent events for the period up to the date of publication of the annual report, to the extent possible. Failure to do so will be regarded as a breach of the Exchange Listing Rules.

...

#### B. BOARD OF DIRECTORS

- (a) Composition of the board, by category of directors, including name of chairman, executive directors, non-executive directors, ~~and~~ independent non-executive directors and lead independent non-executive director (if any); and for each named director, their length of tenure and current period of appointment;

Lead  
INED

...

- (i) ~~how each director, by name, complied with code provision C.1.4a~~ confirmation that all directors, by name, have participated in continuous professional development as required by Rules 3.09F, 3.09G and 3.09H during the reporting period. The confirmation should set out sufficient details for each director, including:
- (i) the number of hours of continuous professional development completed during the reporting period;
  - (ii) the format or mode of continuous professional development (e.g. physical or online training, articles, conference, etc.);
  - (iii) the topics of continuous professional development taken by each director;
  - (iv) the name(s) of relevant training provider(s) (if external); and
  - (v) for any director subject to Rule 3.09H, where applicable, a statement confirming that such director has completed the required minimum of 24 hours of continuous professional development.

Director  
Training

...

#### E. BOARD COMMITTEES

The following information for each of the audit committee, remuneration committee, nomination committee, risk committee (if any), and corporate governance functions:

...

- (d) a summary of the work during the year, including:

...

- (iii) for the nomination committee, disclosing the policy for the nomination of directors during the year, ~~which. This~~ includes the nomination procedures, ~~and~~ the process and criteria adopted by the nomination committee to select and recommend candidates for directorship during the year, and its assessment of each director's time commitment and contribution to the board, as well as the director's ability to discharge his or her responsibilities effectively, taking into account professional qualifications and work experience, existing listed issuer directorships and other significant external time commitments of such director and other factors or circumstances relevant to the director's character, integrity, independence and experience;

*Note: For the purpose of this requirement:*

"significant external time commitments" include all external commitments beyond listed issuer directorship roles that involve significant time commitment. This includes, for example, directorships of overseas issuers, full-time occupations, consultancy work, major public service commitments, directorships of and involvement in statutory bodies or non-profit organizations; and

"other factors or circumstances relevant to the director's character, integrity, independence and experience" includes any change or development in the director's individual situation or circumstance that should reasonably be taken into account in assessing whether he or she is able to effectively discharge his or her duties.

...

## H. RISK MANAGEMENT AND INTERNAL CONTROL

~~An issuer who reports in the Corporate Governance Report~~ Details of the review that it has conducted (at least annually) a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems, including under code provision D.2.1 must disclose the following:

- (a) a statement from the board: (i) acknowledging its responsibility for the issuer's risk management and internal control systems; and (ii) confirming that the risk management and internal control systems of the issuer are appropriate and effective for dealing with identified risks, safeguarding the issuer's assets, preventing and detecting fraud, misconduct and loss, ensuring the accuracy of the issuer's financial reports and achieving compliance with applicable laws and regulations;
- (b) the main features of the risk management and internal control systems, including the process used to identify, evaluate and manage significant risks, and the procedures for the timely, accurate and complete disclosure of discloseable

information, including inside information and any other information required to prevent a false market in the issuer's securities;

- ~~(c) any significant changes during the reporting period in (i) the issuer's assessment of risks (including ESG risks) and (ii) the risk management and internal control systems;~~
- ~~(ad) whether the issuer has an internal audit function;~~
- ~~(e) the responsibilities of internal departments (such as the internal audit function, if it exists) and external providers for reviewing the effectiveness of the issuer's risk management and internal control systems, the process used to conduct those reviews and their frequency;~~
- ~~(f) information supporting the board's conclusion that the risk management and internal control systems are appropriate and effective, including any confirmations received (as applicable) from: management, the relevant board committee(s) with responsibility for the issuer's risk management and internal controls and any other internal departments (such as the internal audit function, if it exists), the issuer's independent auditors, and/or other external providers; and~~
- ~~(g) scope of the review and details of review findings, including any significant control failings or weaknesses that were identified in the current reporting period, or that were previously reported but remain unresolved, and any remedial steps taken or proposed to address such control failings or weaknesses.~~
- ~~(b) how often the risk management and internal control systems are reviewed and the period covered; and~~
- ~~(c) whether the issuer considers its risk management and internal control systems effective and adequate.~~

Note: Issuers should refer to the guidance issued by the Exchange on the Exchange's website, as amended from time to time, on the scope of the review of the risk management and internal control systems.

...

## J. DIVERSITY

- ~~(a) (i) The issuer's policy on board diversity or a summary of the policy, which should include information on including any measurable objectives (e.g. numerical targets and timelines) that it has set for the promotion of gender diversity on its board and implementing the policy the measures the issuer has adopted to develop a pipeline of potential successors to the board to achieve gender diversity; and (ii) the results of issuer's review of the implementation of its board diversity policy conducted during the year (including progress towards the issuer's objectives and progress on achieving these objectives and how the issuer has arrived at its conclusion);~~
- ~~(b) disclose and explain:~~
  - ~~(i) how and when gender diversity will be achieved in respect of the board;~~
  - ~~(ii) the numerical targets and timelines set for achieving gender diversity on its board; and~~

Diversity

- (iii) ~~what measures the issuer has adopted to develop a pipeline of potential successors to the board to achieve gender diversity.~~
- (eb) ~~disclose and explain the issuer's policy on diversity~~gender ratio in the workforce (including senior management) or a summary of the policy, including any plans or measurable measurable objectives (e.g. numerical targets and timelines) the issuer has set for achieving gender diversity, and progress on achieving those objectives. Where applicable, issuers may disclose and any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.; and
- (c) the gender ratio of: (i) senior management; and (ii) the workforce (excluding senior management).

*Note: In this Corporate Governance Code, "senior management" refers to the same persons referred to in the issuer's annual report and required to be disclosed under paragraph 12 of Appendix D2.*

...

## **M. DIVIDENDS**

- (a) Where the issuer has a policy on payment of dividends:
- (i) the policy or a summary of the policy, including the aim or objective of the policy, and the key factors that the board will take into account when deciding whether to declare, recommend or pay any dividend; and
- (ii) a confirmation that all dividend decisions made by the board were made in accordance with the issuer's dividend policy; otherwise, an explanation of any deviations from the issuer's dividend policy;
- (b) where the issuer does not have a policy on payment of dividends:
- (i) the fact that no such policy exists; and
- (ii) the reasons(s) for the absence of such policy;
- (c) regardless of whether the issuer has a policy on payment of dividends, the issuer must:
- (i) where the board declared a dividend (whether interim or final) during the year, the reason(s) for any material variation in the dividend rate compared to that for the previous corresponding period; and
- (ii) where the board decided not to declare any dividend, the reason(s) for the board's decision and the measures that the issuer intends to take to enhance investors' return (if any).

Dividends

...



## PART 2 - PRINCIPLES OF GOOD CORPORATE GOVERNANCE, CODE PROVISIONS AND RECOMMENDED BEST PRACTICES

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### B. BOARD COMPOSITION AND NOMINATION

#### B.1 Board composition, succession and evaluation

...

##### Code Provisions

...

~~B.1.3 The board should review the implementation and effectiveness of the issuer's policy on board diversity on an annual basis.~~

Diversity

B.1.43 An issuer should establish mechanism(s) to ensure independent views and input are available to the board and disclose such mechanism(s) in its Corporate Governance Report. The board should review the implementation and effectiveness of such mechanism(s) on an annual basis.

B.1.4 An issuer should conduct a formal evaluation of the board's performance at least every two years. Issuers should confirm in the Corporate Governance Report whether they conducted a board performance review during the reporting period and if not, when the next board performance review will be conducted. If a board performance review was conducted during the reporting period, issuers should disclose in the Corporate Governance Report:

Board  
Evaluation

(a) whether the board performance review was conducted internally or by an external provider;

(b) how the board performance review was conducted, including the scope of the review and the responsible department(s) / committee(s) / external provider(s) involved in conducting the review;

(c) the connection (if any) between any external provider involved in the board performance review and the issuer or any of its directors; and

(d) details on the findings of the board performance review, including significant areas of improvement (if identified during the board performance review), and measures taken or planned as a result of the board performance review.

B.1.5 An issuer should maintain and disclose in the Corporate Governance Report a board skills matrix setting out the information including:

(a) details of the mix of skills that the board currently has;

Skills  
Matrix

(b) an explanation of how the combination of skills, experience and diversity of the directors serves the issuer's purpose, values, strategy and desired culture; and

(c) details of any further skills that the board is looking to acquire, its plans to acquire such further skills, and how the plans made in the previous year(s) were achieved or progressed in the reporting year.

## Recommended Best Practices

~~B.1.5 The board should conduct a regular evaluation of its performance.~~

...

Board  
Evaluation

## B.2 Appointments, re-election and removal

...

### Code Provisions

...

B.2.3 ~~[To be repealed after 31 December 2027]~~ If an independent non-executive director has served more than nine years, such director's further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should state why the board (or the nomination committee) believes that the director is still independent and should be re-elected, including the factors considered, the process and the discussion of the board (or the nomination committee) in arriving at such determination.

Long  
serving  
INEDs

B.2.4 ~~[To be repealed after 31 December 2027]~~ Where all the independent non-executive directors of an issuer have served more than nine years on the board, the issuer should:

- (a) disclose the length of tenure of each existing independent non-executive director on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting; and
- (b) appoint a new independent non-executive director on the board at the forthcoming annual general meeting<sup>4</sup>.

<sup>4</sup> ~~The appointment of a new independent non-executive director requirement will come into effect for the financial year commencing on or after 1 January 2023.~~

## B.3 Nomination Committee

### Code Provisions

- ...
- B.3.1 The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties. It should perform the following duties:-
- (a) review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually, assist the board in maintaining a board skills matrix, and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy;
  - (b) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;
  - (c) assess the independence of independent non-executive directors; ~~and~~
  - (d) make recommendations to the board on the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the chief executive; and;
  - (e) support the issuer's regular evaluation of the board's performance.
- ...
- B.3.4 Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting:
- (a) the process used for identifying the individual and why the board believes the individual should be elected and the reasons why it considers the individual to be independent;
  - (b) [To be repealed after 31 December 2027] if the proposed independent non-executive director will be holding their seventh (or more) listed ~~company~~ issuer directorship, why the board believes the individual would still be able to devote sufficient time to the board;
  - (c) the perspectives, skills and experience that the individual can bring to the board; and
  - (d) how the individual contributes to diversity of the board.

Skills  
matrix

Board  
Evaluation

Over-  
boarding

B.3.5 Issuers should appoint at least one director of a different gender to the nomination committee.

Diversity

## C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS

### C.1 Responsibilities of directors

#### Principle

Every director must understand, and, at all times, be aware of ~~always know~~ their responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors. To ensure directors' contribution to the board remains informed and relevant, all directors must participate in continuous professional development to develop and refresh their knowledge and skills for a proper understanding of the issuer's business, operations and governance policies and full awareness of their responsibilities under statute and common law, the Exchange Listing Rules, legal and other regulatory requirements. Directors should provide a record of the continuous professional development they received to the issuer.

Director  
Training

#### Code Provisions

C.1.1 An issuer should be responsible for arranging and (where necessary) funding:

(a) Newly appointed directors of an issuer should receive a comprehensive, formal and tailored induction for newly appointed directors upon appointment; and

(b) suitable continuous professional development for all directors. Subsequently they should receive any briefing and professional development necessary to ensure that they have a proper understanding of the issuer's operations and business and are fully aware of their responsibilities under statute and common law, the Exchange Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.

...

~~C.1.4 All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.~~

~~*Note: Directors should provide a record of the training they received to the issuer.*~~

C.1.54 Directors should disclose to the issuer at the time of their appointments, and in a timely manner for any changes, the number and nature of offices held in public companies or organisations and other significant external time commitments. The identity of the public companies or organisations and an indication of the time involved should also be disclosed. The board should determine for itself how frequently this disclosure should be made.

C.1.65 Independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. Generally they should also attend general meetings to gain and develop a balanced understanding of the views of shareholders.

*Note: Non-executive directors' attendance at general meetings is important. An independent non-executive director is often the chairman or a member of board committees and as such, the individual should be accountable to shareholders by being available to respond to questions and enquiries in relation to their work. Without attending general meetings, the director will not be able to develop a balanced understanding of the views of shareholders.*

C.1.76 Independent non-executive directors and other non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.

C.1.7 Where the chairman is not an independent non-executive director and/or the roles of the chairman and chief executive are performed by the same individual, an issuer should appoint one independent non-executive director to be the lead independent non-executive director to (a) serve as an intermediary for the other directors and shareholders; and (b) be available to other directors and shareholders where normal communication channels with the chairman or management are inadequate.

Note: A chairman who is an independent non-executive director is expected to fulfil the role of the lead independent non-executive director set out above, unless another director has been appointed as the lead independent non-executive director.

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## D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT

### D.1 Financial reporting

#### Code Provisions

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D.1.2 Management should provide all members of the board with, and the board and each director are entitled to and should request for, monthly updates giving a balanced and understandable assessment of the issuer's financial and operating performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13.

Management  
Accounts

*Note: The information provided ~~may~~ should include monthly management accounts and management updates, background or explanatory information relating to matters to be brought before the board, copies of disclosure documents (if applicable), budgets, forecasts and monthly and other relevant internal financial statements ~~such as monthly management accounts and management updates.~~ For budgets, any material variance between the projections and actual results should also be disclosed and explained.*

...

### D.2 Risk management and internal control

#### Principle

The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, ~~and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems.~~ Such risks would include, amongst others, material risks relating to ESG (please refer to the ESG Reporting Guide Code in Appendix C2 to the Exchange Listing Rules for further information).

Internal  
Controls

The board is responsible for ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems for the purpose of dealing with identified risks, safeguarding the issuer's assets, preventing and detecting fraud, misconduct and loss, ensuring the accuracy of the issuer's financial reports and achieving compliance with applicable laws and regulations. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, on an ongoing basis. The board is also responsible for ensuring that the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems is reviewed at least annually, and management should provide a confirmation to the board on the effectiveness of these systems.

## Code Provisions

~~D.2.1 The board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.~~

D.2.21 For the purpose of the board's annual review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems, which shall be conducted at least annually, the board should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit, and financial reporting functions, as well as those relating to the issuer's ESG performance and reporting, consider:

(a) the scope of the review to ensure it covers all material controls, including financial, operational and compliance controls;

D.2.3 ~~The board's annual review should, in particular, consider~~

~~(a)(b) the changes, since the last annual review, in the nature and extent of significant risks (including ESG risks), and the issuer's ability to respond to changes in its business and the external environment;~~

~~(b)(c) the scope and quality of management's ongoing monitoring of risks (including ESG risks) and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;~~

~~(e)(d) the extent and frequency of communication of monitoring results to the board (or board committee(s)) for the purposes of assessing the adequacy which enables it to assess control of the issuer and the effectiveness of the issuer's risk management and internal control systems;~~

~~(d)(e) significant control failings or weaknesses that have been identified during the review period of the risk management and internal control systems, and. Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition, and any remedial measures taken to address such control failings or weaknesses;  
and~~

~~(e)(f) the effectiveness of the issuer's processes for financial reporting and Exchange Listing Rule compliance; and.~~

(g) the adequacy of resources (internal and external) for conducting the review, including staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit, and financial reporting functions, as well as those relating to the issuer's ESG performance and reporting.

~~D.2.4 Issuers should disclose, in the Corporate Governance Report, a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period. In particular, they should disclose:~~

~~(a) the process used to identify, evaluate and manage significant risks;~~

~~(b) the main features of the risk management and internal control systems;~~

~~(c) an acknowledgement by the board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss;~~

~~(d) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and~~

~~(e) the procedures and internal controls for the handling and dissemination of inside information.~~

D.2.52 The issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report.

*Notes: 1. An internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the issuer's risk management and internal control systems.*

*2. A group with multiple listed issuers may share group resources to carry out the internal audit function for members of the group.*



D.2.63 The issuer should establish a whistleblowing policy and system for employees and those who deal with the issuer (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, with the audit committee (or any designated committee comprising a majority of independent non-executive directors) about possible improprieties in any matter related to the issuer.

D.2.74 The issuer should establish policy(ies) and system(s) that promote and support anti-corruption laws and regulations.

### **Recommended Best Practices**

~~D.2.8 The board may disclose in the Corporate Governance Report that it has received a confirmation from management on the effectiveness of the issuer's risk management and internal control systems.~~

~~D.2.9 The board may disclose in the Corporate Governance Report details of any significant areas of concern.~~

...

## **F. SHAREHOLDERS ENGAGEMENT**

### **F.1 Effective communication and conduct of shareholders meetings**

#### **Principle**

The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation. In addition, the issuer should ensure that shareholders are given sufficient advance notice of shareholders meetings and provide sufficient information to enable shareholders to familiarise themselves with the detailed procedures for conducting a poll, and should arrange to address questions from shareholders in the shareholders meetings.

#### **Code Provisions**

~~F.1.1 The issuer should have a policy on payment of dividends and should disclose it in the annual report.~~

Dividends

### **~~F.2 Shareholders meetings~~**

#### **Principle**

~~The issuer should ensure that shareholders are given sufficient notice of shareholders meetings and are familiar with the detailed procedures for conducting a poll, and should arrange to address questions from shareholders in~~

~~the shareholders meetings.~~

### **Code Provisions**

**F.2.41.1** For each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting. Issuers should avoid “bundling” resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are “bundled”, issuers should explain the reasons and material implications in the notice of meeting.

*Note: An example of a substantially separate issue is the nomination of persons as directors. Accordingly, each person should be nominated by means of a separate resolution.*

**F.21.2** The chairman of the board should attend the annual general meeting. The chairman of the board should also invite the lead independent non-executive director (if any) and the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence of any committee chairman, the chairman should invite another member of the committee or failing this their duly appointed delegate, to attend. These persons should be available to answer relevant questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders’ approval. An issuer’s management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors’ report, the accounting policies and auditor independence.

Lead  
INED

*Note: Subject to the issuer’s constitutional documents, and the laws and regulations of its place of incorporation, attendance by the above persons at a meeting by electronic means such as telephonic or videoconferencing may be counted as physical attendance.*

**F.21.3** The chairman of a meeting should ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.

### **Recommended Best Practices**

**F.1.24** Issuers are encouraged to include the following information in their Corporate Governance Report:

- (a) details of shareholders by type and aggregate shareholding;

- (b) indication of important shareholders' dates in the coming financial year;
- (c) the percentage of public float, based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report; and
- (d) the number of shares held by each of the senior management.

...

## Part C: Minor Rule Amendments

### Chapter 3

#### GENERAL

##### Directors

...

3.11 An issuer shall immediately inform the Exchange and publish an announcement containing the relevant details and reasons if, at any time, the number of its independent non-executive directors falls below:

- (1) the minimum number required under rule 3.10(1) or at any time it has ~~failed~~been unable to meet the requirement set out in rule 3.10(2) regarding qualification of the independent non-executive directors; or
- (2) one-third of the board as required under rule 3.10A.

The issuer shall use all reasonable endeavours to appoint a sufficient number of independent non-executive directors to meet the minimum number required under rule 3.10(1) or 3.10A or appoint an independent non-executive director to meet the requirement set out in rule 3.10(2) on a timely basis, and in any case within three months after being unable to ~~failing to~~ meet the requirement(s).

...

##### Audit Committee

3.23 A listed issuer shall immediately inform the Exchange and publish an announcement in accordance with rule 2.07C containing the relevant details and reasons if the listed issuer ~~fails~~is unable to set up an audit committee or at any time has ~~failed~~been unable to meet any of the other requirements set out in rules 3.21 and 3.22 regarding the audit committee. ~~Listed issuers shall~~The issuer must use all reasonable endeavours to set up an audit committee with written terms of reference and/or appoint appropriate members to the audit committee to meet the requirement(s) on a timely basis, and in any case within three months after being unable to ~~failing to~~ meet such requirement(s).

Board  
committee

...

##### Remuneration Committee

...

3.27 If the issuer ~~fails~~is unable to set up a remuneration committee or at any time has ~~failed~~been unable to meet any of the other requirements in rules 3.25 and 3.26, it must immediately publish an announcement containing the relevant details and reasons. ~~Issuers~~The issuer must use all reasonable endeavours to set up a remuneration committee with written terms of reference and/or appoint appropriate members to it to meet the requirement(s) on a timely basis, and in any case within three months after being unable to ~~failing to~~ meet ~~them~~ such requirement(s).

## Nomination Committee

...

3.27B The board of directors must approve and provide written terms of reference for the nomination committee which clearly establish its authority and duties.

3.27C If the issuer is unable to set up a nomination committee or at any time has been unable to meet any of the other requirements in rules 3.27A and 3.27B, it must immediately publish an announcement containing the relevant details and reasons. The issuer must use all reasonable endeavours to set up a nomination committee with written terms of reference and/or appoint appropriate members to it to meet the requirement(s) on a timely basis, and in any case within three months after being unable to meet such requirement(s).

...

## Chapter 8A

### EQUITY SECURITIES

#### WEIGHTED VOTING RIGHTS

...

### CORPORATE GOVERNANCE

#### *Nomination committee*

...

8A.28A If a listed issuer with a WVR structure is unable to set up a nomination committee or at any time has been unable to meet any of the other requirements in rules 8A.27 (in respect of establishing written terms of reference for the nomination committee) and 8A.28, it must immediately publish an announcement containing the relevant details and reasons. The issuer must use all reasonable endeavours to set up a nomination committee with written terms of reference and/or appoint appropriate members to it to meet the requirement(s) on a timely basis, and in any case within three months after being unable to meet such requirement(s).

...

**Chapter 13**  
**EQUITY SECURITIES**  
**CONTINUING OBLIGATIONS**

...

**TRADING AND SETTLEMENT**

**Closure of books and record date**

Record  
date

- 13.66 (1) An issuer must set a record date for determining the identity of securities holders eligible for attending and voting at the general meeting or receiving entitlements. An issuer must further announce (a) the record date and (b) any closure of its transfer books or register of members in respect of securities listed in Hong Kong. For a rights issue, such announcement must be made at least six business days before the record date (when there is no book closure) or book closure date~~the closure for a rights issue, or in all other cases, 10 business days before the record date (when there is no book closure) or book~~ closure in other cases. In cases where ~~Where~~ there is an alteration of the record date or book closing dates, the issuer must, at least five business days before (i) the announced record date (where there is no book closure) / book closure or (ii) the new record date (where there is no book closure) / book closure, whichever is earlier, notify the Exchange in writing and make a further announcement. If, however, there are exceptional circumstances (e.g. a typhoon) that render the giving of the notification to the Exchange and publication of the announcement impossible, the issuer must comply with the requirements as soon as practicable. Where the issuer decides on a record date without book closure, these requirements apply to the record date.

...

*Notes:*

...

2. *In addition, for a rights issue, the issuer must provide at least two trading days for trading in the securities with entitlements (i.e. before the ex-date) after publication of the record date (when there is no book closure) or book closure. If trading on the Exchange is interrupted due to a typhoon, "extreme conditions" caused by a super typhoon (as defined in the note to paragraph 2 of Practice Note 8) and/or a black rainstorm warning, the record date (when there is no book closure) or book-close date will be automatically postponed, where necessary, to provide at least two trading days (during neither of which trading is interrupted) for trading of the securities with entitlements during the notice period. In these circumstances the issuer must publish an announcement on the revised timetable.*

...

## Appendix D2 DISCLOSURE OF FINANCIAL INFORMATION

...

### Requirement for all Financial Statements

2. Each set of financial statements presented in an annual report, listing document or circular shall provide a true and fair view of the state of affairs of the listed issuer and of the results of its operations and its cashflows.

...

3. If the financial statements do not give a true and fair view of the state of affairs of the listed issuer and of the results of its operations and its cashflows, more detailed and/or additional information must be provided.

Modified  
auditors'  
opinion

3.1 *If a listed issuer is in doubt as to what more detailed and/or additional information should be provided, it should ~~apply to the Exchange for~~ seek guidance from the Exchange. As a minimum, the listed issuer shall provide the following information:*

- (a) details of the modifications and their actual or potential impact on the issuer's financial position;
- (b) management's position and basis on major judgmental areas (such as basis for impairment or valuation of assets), and how management's view is different from that of the auditors;
- (c) the audit committee's view towards the modifications, and whether the audit committee reviewed and agreed with management's position concerning major judgmental areas; and
- (d) The issuer's proposed plans to address the modifications.

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## APPENDIX II: PROPOSED AMENDMENTS TO THE GEM LISTING RULES

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### Part A: Amendments to GEM Listing Rules

#### Chapter 5

#### GENERAL

#### Directors

...

5.02F Every director of a listed issuer must receive continuous professional development in each financial year of the issuer.

5.02G The continuous professional development required by rule 5.02F must cover at least the following topics:

- (a) the roles, functions and responsibilities of the board, its committees and its directors, and board effectiveness;
- (b) issuers' obligations and directors' duties under Hong Kong law and the GEM Listing Rules, and key legal and regulatory developments (including GEM Listing Rule updates) relevant to the discharge of such obligations and duties;
- (c) corporate governance and ESG matters (including developments on sustainability or climate-related risks and opportunities relevant to the issuer and its business);
- (d) risk management and internal controls; and
- (e) updates on industry-specific developments, business trends and strategies relevant to the issuer.

5.02H First-time directors must complete no less than 24 hours of the continuous professional development required by rule 5.02F within 18 months of the date of their appointment.

Notes: 1. For the purpose of this rule, "first-time directors" means individuals who: (a) are appointed as a director of an issuer listed on the Exchange for the first time (i.e. have no prior experience as a director of an issuer listed on the Exchange); or (b) have not served as a director of an issuer listed on the Exchange for a period of three years or more prior to their appointment.

2. If a first-time director ceases to be a director of an issuer prior to the completion of 24 hours of continuous professional development, the requirement in rule 5.02H would reset. The individual would have to complete the minimum training of 24 hours within 18 months from subsequently being appointed as a director of an issuer listed on the Exchange.

Director  
Training



...

5.07 In addition to fulfilling the requirements and continuing obligations of rules 5.01, 5.02, 5.07A, and 5.09, and 5.09A, every independent non-executive director must have the character, integrity, independence and experience to fulfil his role effectively. The Exchange may stipulate a minimum number of independent non-executive directors which is higher than 3 if, in the opinion of the Exchange, the size of the board or other circumstances of the issuer justify it.

5.07A An independent non-executive director must not concurrently hold more than six listed issuer directorships.

Note: Independent non-executive directors must comply with this rule from 1 January 2028 onwards. An independent non-executive director who concurrently holds more than six listed issuer directorships as at 31 December 2027 must comply with this rule by the conclusion of the earliest annual general meeting held after 31 December 2027 by any listed issuer that such director serves.

Over-boarding

...

5.09A The Exchange will not consider a director to be independent if the individual has been an independent non-executive director of the issuer for a period of nine years or more.

Long serving INEDs

- Notes:
1. This rule applies from 1 January 2028 onwards.
  2. For the purpose of this rule, the “period of nine years” shall be counted from the date of appointment of an independent non-executive director or (where the appointment occurs before listing) the listing date of the issuer. Where the individual ceases to be an independent non-executive director of the issuer for period(s) of less than two years, such period(s) will be counted towards the calculation of the tenure.
  3. If a director has been an independent non-executive director of an issuer for nine years or more as at 31 December 2027, the Exchange will cease to consider such individual to be independent as at the conclusion of the next annual general meeting of the issuer that follows 31 December 2027.
  4. For an independent non-executive director whose nine-year tenure ends on or after 1 January 2028, the Exchange will cease to consider such individual to be independent as at the conclusion of the next annual general meeting of the issuer that follows the end of the director’s nine-year tenure.
  5. The Exchange will permit an individual who has previously served as an independent non-executive director on the board of a listed issuer for nine years or more to be subsequently re-appointed as an independent non-executive director of the same issuer, provided that such individual (a) satisfies the independence guidelines set out in rule 5.09; and (b) has not, at any time during the two years

immediately prior to the date of their proposed re-appointment, been a director of the listed issuer, of its holding company or of any of their respective subsidiaries or of any core connected persons of the listed issuer.

...

## Chapter 17

### EQUITY SECURITIES

#### CONTINUING OBLIGATIONS

...

#### Environmental and Social Matters

...

17.104 (1) ~~The issuer nomination committee (or the board) shall~~ must have a policy(ies) concerning the diversity of its board members and the diversity of its workforce (including senior management), and shall must disclose the such policy(ies) on diversity or a summary of the policy the policy(ies) in the corporate governance report.

Diversity

(2) Board diversity differs according to the circumstances of each issuer. While diversity of board members can be achieved through consideration of a number of factors (including but not limited to gender, age, cultural and educational background, or professional experience), the Exchange will not consider diversity to be achieved for a single gender board. If the issuer is unable at any time to meet the requirement to have directors of different genders on the board, it must immediately publish an announcement containing the relevant details and reasons. The issuer must use all reasonable endeavours to appoint appropriate member(s) to the board to meet such requirement on a timely basis, and in any case within three months after being unable to meet such requirement.

*Note: ~~As a transitional arrangement, issuers with a single gender board will have to appoint at least a director of a different gender on the board no later than 31 December 2024.~~*

...

## Part B: Amendments to Appendix C1

### Appendix C1

#### CORPORATE GOVERNANCE CODE

##### PART 1 - MANDATORY DISCLOSURE REQUIREMENTS

To provide transparency, issuers must include the following information for the accounting period covered by the annual report and significant subsequent events for the period up to the date of publication of the annual report, to the extent possible. Failure to do so will be regarded as a breach of the GEM Listing Rules.

...

#### B. BOARD OF DIRECTORS

- (a) Composition of the board, by category of directors, including name of chairman, executive directors, non-executive directors, ~~and independent non-executive directors~~ and lead independent non-executive director (if any); and for each named director, their length of tenure and current period of appointment;
- ...
- (j) ~~how each director, by name, complied with code provision C.1.4~~ a confirmation that all directors, by name, have participated in continuous professional development as required by Rules 5.02F, 5.02G and 5.02H during the reporting period. The confirmation should set out sufficient details for each director, including:
- (i) the number of hours of continuous professional development completed during the reporting period;
  - (ii) the format or mode of continuous professional development (e.g. physical or online training, articles, conference, etc.);
  - (iii) the topics of continuous professional development taken by each director;
  - (iv) the name(s) of relevant training provider(s) (if external); and
  - (v) for any director subject to Rule 5.09H, where applicable, a statement confirming that such director has completed the required minimum of 24 hours of continuous professional development.

Lead  
INED

Director  
Training

...

## E. BOARD COMMITTEES

The following information for each of the audit committee, remuneration committee, nomination committee, risk committee (if any), and corporate governance functions:

...

(d) a summary of the work during the year, including:

...

- (iii) for the nomination committee, disclosing the policy for the nomination of directors during the year, which, ~~This~~ includes the nomination procedures, ~~and~~ the process and criteria adopted by the nomination committee to select and recommend candidates for directorship during the year, and its assessment of each director's time commitment and contribution to the board, as well as the director's ability to discharge his or her responsibilities effectively, taking into account professional qualifications and work experience, existing listed issuer directorships and other significant external time commitments of such director and other factors or circumstances relevant to the director's character, integrity, independence and experience;

Note: For the purpose of this requirement:

"significant external time commitments" include all external commitments beyond listed issuer directorship roles that involve significant time commitment. This includes, for example, directorships of overseas issuers, full-time occupations, consultancy work, major public service commitments, directorships of and involvement in statutory bodies or non-profit organizations; and

"other factors or circumstances relevant to the director's character, integrity, independence and experience" includes any change or development in the director's individual situation or circumstance that should reasonably be taken into account in assessing whether he or she is able to effectively discharge his or her duties.

...

## H. RISK MANAGEMENT AND INTERNAL CONTROL

~~An issuer who reports in the Corporate Governance Report~~ Details of the review that it has conducted (at least annually) a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems-, including under code provision D.2.1 must disclose the following:

Over-boarding

Internal Controls

- (a) a statement from the board: (i) acknowledging its responsibility for the issuer's risk management and internal control systems; and (ii) confirming that the risk management and internal control systems of the issuer are appropriate and effective for dealing with identified risks, safeguarding the issuer's assets, preventing and detecting fraud, misconduct and loss, ensuring the accuracy of the issuer's financial reports and achieving compliance with applicable laws and regulations;
- (b) the main features of the risk management and internal control systems, including the process used to identify, evaluate and manage significant risks, and the procedures for the timely, accurate and complete disclosure of disclosable information, including inside information and any other information required to prevent a false market in the issuer's securities;
- (c) any significant changes during the reporting period in (i) the issuer's assessment of risks (including ESG risks) and (ii) the risk management and internal control systems;
- (ad) whether the issuer has an internal audit function;
- (e) the responsibilities of internal departments (such as the internal audit function, if it exists) and external providers for reviewing the effectiveness of the issuer's risk management and internal control systems, the process used to conduct those reviews and their frequency;
- (f) information supporting the board's conclusion that the risk management and internal control systems are appropriate and effective, including any confirmations received (as applicable) from: management, the relevant board committee(s) with responsibility for the issuer's risk management and internal controls and any other internal departments (such as the internal audit function, if it exists), the issuer's independent auditors, and/or other external providers; and
- (g) scope of the review and details of review findings, including any significant control failings or weaknesses that were identified in the current reporting period, or that were previously reported but remain unresolved, and any remedial steps taken or proposed to address such control failings or weaknesses.
- ~~(b) how often the risk management and internal control systems are reviewed and the period covered; and~~
- ~~(c) whether the issuer considers its risk management and internal control systems effective and adequate.~~

Note: Issuers should refer to the guidance issued by the Exchange on the Exchange's website, as amended from time to time, on the scope of the review of the risk management and internal control systems.

...

## J. DIVERSITY

- (a) (i) The issuer's policy on board diversity or a summary of the policy, which should include information on including any measurable objectives (e.g. numerical targets and timelines) that it has set for the promotion of gender diversity on its board and implementing the policy the measures the issuer has adopted to develop a pipeline

Diversity

of potential successors to the board to achieve gender diversity; and (ii) the results of issuer's review of the implementation of its board diversity policy conducted during the year (including progress towards the issuer's objectives and progress on achieving those objectives and how the issuer has arrived at its conclusion);

~~(b) disclose and explain:~~

~~(i) how and when gender diversity will be achieved in respect of the board;~~

~~(ii) the numerical targets and timelines set for achieving gender diversity on its board; and~~

~~(iii) what measures the issuer has adopted to develop a pipeline of potential successors to the board to achieve gender diversity.~~

~~(e**u**) disclose and explain the issuer's policy on diversity gender ratio in the workforce (including senior management) or a summary of the policy, including any plans or measurable objectives (e.g. numerical targets and timelines) the issuer has set for achieving gender diversity, and progress on achieving those objectives. Where applicable, issuers may disclose and any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant; and~~

~~(c) the gender ratio of: (i) senior management; and (ii) the workforce (excluding senior management).~~

*Note: In this Corporate Governance Code, "senior management" refers to the same persons referred to in the issuer's annual report and required to be disclosed under rule 18.39.*

...

## **M. DIVIDENDS**

(a) Where the issuer has a policy on payment of dividends:

(i) the policy or a summary of the policy, including the aim or objective of the policy, and the key factors that the board will take into account when deciding whether to declare, recommend or pay any dividend; and

(ii) a confirmation that all dividend decisions made by the board were made in accordance with the issuer's dividend policy; otherwise, an explanation of any deviations from the issuer's dividend policy;

(b) where the issuer does not have a policy on payment of dividends:

(i) the fact that no such policy exists; and

(ii) the reason(s) for the absence of such policy;

(c) regardless of whether the issuer has a policy on payment of dividends, the issuer must:

(i) where the board declared a dividend (whether interim or final) during the year, the reason(s) for any material variation in the dividend rate compared

Dividends

to that for the previous corresponding period; and

- (ii) where the board decided not to declare any dividend, the reason(s) for the board's decision and the measures that the issuer intends to take to enhance investors' return (if any).

...

## **PART 2 - PRINCIPLES OF GOOD CORPORATE GOVERNANCE, CODE PROVISIONS AND RECOMMENDED BEST PRACTICES**

...

### **B. BOARD COMPOSITION AND NOMINATION**

#### **B.1 Board composition, succession and evaluation**

...

##### **Code Provisions**

...

- ~~B.1.3 The board should review the implementation and effectiveness of the issuer's policy on board diversity on an annual basis.~~

Diversity

- B.1.43 An issuer should establish mechanism(s) to ensure independent views and input are available to the board and disclose such mechanism(s) in its Corporate Governance Report. The board should review the implementation and effectiveness of such mechanism(s) on an annual basis.

- B.1.4 An issuer should conduct a formal evaluation of the board's performance at least every two years. Issuers should confirm in the Corporate Governance Report whether they conducted a board performance review during the reporting period and if not, when the next board performance review will be conducted. If a board performance review was conducted during the reporting period, issuers should disclose in the Corporate Governance Report:

Board  
Evaluation

- (a) whether the board performance review was conducted internally or by an external provider;

- (b) how the board performance review was conducted, including the scope of the review and the responsible department(s) / committee(s) / external provider(s) involved in conducting the review;

- (c) the connection (if any) between any external provider involved in the board performance review and the issuer or any of its directors; and

- (d) details on the findings of the board performance review, including significant areas of improvement (if identified during the board

Skills  
Matrix

performance review), and measures taken or planned as a result of the board performance review.

**B.1.5** An issuer should maintain and disclose in the Corporate Governance Report a board skills matrix setting out the information including:

- (a) details of the mix of skills that the board currently has;
- (b) an explanation of how the combination of skills, experience and diversity of the directors serves the issuer's purpose, values, strategy and desired culture; and
- (c) details of any further skills that the board is looking to acquire, its plans to acquire such further skills, and how the plans made in the previous year(s) were achieved or progressed in the reporting year.

### **Recommended Best Practices**

~~B.1.5 The board should conduct a regular evaluation of its performance.~~

Board  
Evaluation

## **B.2 Appointments, re-election and removal**

...

### **Code Provisions**

...

B.2.3 [To be repealed after 31 December 2027] If an independent non-executive director has served more than nine years, such director's further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should state why the board (or the nomination committee) believes that the director is still independent and should be re-elected, including the factors considered, the process and the discussion of the board (or the nomination committee) in arriving at such determination.

Long  
serving  
INEDs

B.2.4 [To be repealed after 31 December 2027] Where all the independent non-executive directors of an issuer have served more than nine years on the board, the issuer should:

- (a) disclose the length of tenure of each existing independent non-executive director on a named basis in the circular to shareholders and/or explanatory statement accompanying the notice of the annual general meeting; and
- (b) appoint a new independent non-executive director on the board at the forthcoming annual general meeting<sup>4</sup>.



<sup>4</sup> ~~\_\_\_\_\_The appointment of a new independent non-executive director requirement will come into effect for the financial year commencing on or after 1 January 2023.~~

## B.3 Nomination Committee

...

### Code Provisions

B.3.1 The nomination committee should be established with specific written terms of reference which deal clearly with its authority and duties. It should perform the following duties:-

- (a) review the structure, size and composition (including the skills, knowledge and experience) of the board at least annually, assist the board in maintaining a board skills matrix, and make recommendations on any proposed changes to the board to complement the issuer's corporate strategy;
- (b) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships;
- (c) assess the independence of independent non-executive directors; and
- (d) make recommendations to the board on the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the chief executive; and;
- (e) support the issuer's regular evaluation of the board's performance.

Skills  
matrix

Board  
Evaluation

...

B.3.4 Where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting:

- (a) the process used for identifying the individual and why the board believes the individual should be elected and the reasons why it considers the individual to be independent;
- (b) [To be repealed after 31 December 2027] if the proposed independent non-executive director will be holding their seventh (or more) listed ~~company-issuer~~ directorship, why the board believes the individual would still be able to devote sufficient time to the board;
- (c) the perspectives, skills and experience that the individual can bring

Over-  
boarding

to the board; and

(d) how the individual contributes to diversity of the board.

B.3.5 Issuers should appoint at least one director of a different gender to the nomination committee.

Diversity

## C. DIRECTORS' RESPONSIBILITIES, DELEGATION AND BOARD PROCEEDINGS

### C.1 Responsibilities of directors

#### Principle

Every director must understand, and, at all times, be aware of ~~always know~~ their responsibilities as a director of an issuer and its conduct, business activities and development. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors. To ensure directors' contribution to the board remains informed and relevant, all directors must participate in continuous professional development to develop and refresh their knowledge and skills for a proper understanding of the issuer's business, operations and governance policies and full awareness of their responsibilities under statute and common law, the GEM Listing Rules, legal and other regulatory requirements. Directors should provide a record of the continuous professional development they received to the issuer.

Director  
Training

#### Code Provisions

C.1.1 An issuer should be responsible for arranging and (where necessary) funding:

(a) Newly appointed directors of an issuer should receive a comprehensive, formal and tailored induction for newly appointed directors upon appointment; and

(b) suitable continuous professional development for all directors. Subsequently they should receive any briefing and professional development necessary to ensure that they have a proper understanding of the issuer's operations and business and are fully aware of their responsibilities under statute and common law, the GEM Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.

...

~~C.1.4 All directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The issuer should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.~~

~~*Note: Directors should provide a record of the training they received to the issuer.*~~

C.1.54 Directors should disclose to the issuer at the time of their appointments, and in a timely manner for any changes, the number and nature of offices held in public companies or organisations and other significant external time commitments. The identity of the public companies or

Over-  
boarding

organisations and an indication of the time involved should also be disclosed. The board should determine for itself how frequently this disclosure should be made.

C.1.65 Independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. Generally they should also attend general meetings to gain and develop a balanced understanding of the views of shareholders.

*Note: Non-executive directors' attendance at general meetings is important. An independent non-executive director is often the chairman or a member of board committees and as such, the individual should be accountable to shareholders by being available to respond to questions and enquiries in relation to their work. Without attending general meetings, the director will not be able to develop a balanced understanding of the views of shareholders.*

C.1.76 Independent non-executive directors and other non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments.

C.1.7 Where the chairman is not an independent non-executive director and/or the roles of the chairman and chief executive are performed by the same individual, an issuer should appoint one independent non-executive director to be the lead independent non-executive director to (a) serve as an intermediary for the other directors and shareholders; and (b) be available to other directors and shareholders where normal communication channels with the chairman or management are inadequate.

Note: A chairman who is an independent non-executive director is expected to fulfil the role of the lead independent non-executive director set out above, unless another director has been appointed as the lead independent non-executive director.

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Lead  
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## D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT

### D.1 Financial reporting

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#### Code Provisions

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D.1.2 Management should provide all members of the board with, and the board and each director are entitled to and should request for, monthly updates giving a balanced and understandable assessment of the issuer's financial and operating performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under rule 5.01 and Chapter 17.

*Note: The information provided ~~may~~ should include monthly management accounts and management updates, background or explanatory information relating to matters to be brought before the board, copies of disclosure documents (if applicable), budgets, forecasts and monthly and other relevant internal financial statements such as monthly management accounts and management updates. For budgets, any material variance between the projections and actual results should also be disclosed and explained.*

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### D.2 Risk management and internal control

#### Principle

The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, ~~and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems.~~ Such risks would include, amongst others, material risks relating to ESG (please refer to the ESG Reporting Guide Code in Appendix C2 to the GEM Listing Rules for further information).

The board is responsible for ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems for the purpose of dealing with identified risks, safeguarding the issuer's assets, preventing and detecting fraud, misconduct and loss, ensuring the accuracy of the issuer's financial reports and achieving compliance with applicable laws and regulations. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, on an ongoing basis. The board is also responsible for ensuring that the effectiveness of the issuer's and its subsidiaries' risk management and

Internal  
Controls

internal control systems is reviewed at least annually, and management should provide a confirmation to the board on the effectiveness of these systems.

### Code Provisions

~~D.2.1 The board should oversee the issuer's risk management and internal control systems on an ongoing basis, ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls.~~

Internal  
Controls

~~D.2.21~~ For the purpose of the The board's annual review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems, which shall be conducted at least annually, the board should, in particular, ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit, and financial reporting functions, as well as those relating to the issuer's ESG performance and reporting. consider:

(a) the scope of the review to ensure it covers all material controls, including financial, operational and compliance controls;

~~D.2.3~~ The board's annual review should, in particular, consider:

~~(a)~~(b) the changes, since the last annual review, in the nature and extent of significant risks (including ESG risks), and the issuer's ability to respond to changes in its business and the external environment;

~~(b)~~(c) the scope and quality of management's ongoing monitoring of risks (including ESG risks) and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers;

~~(e)~~(d) the extent and frequency of communication of monitoring results to the board (or board committee(s)) for the purposes of assessing the adequacy which enables it to assess control of the issuer and the effectiveness of the issuer's risk management and internal control systems;

~~(d)~~(e) significant control failings or weaknesses that have been identified during the review period of the risk management and internal control systems, and . Also, the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the issuer's financial performance or condition, and any remedial measures taken to address such control failings or weaknesses;  
and

~~(e)(f)~~ the effectiveness of the issuer's processes for financial reporting and GEM Listing Rule compliance; and

(g) the adequacy of resources (internal and external) for conducting the review, including staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit, and financial reporting functions, as well as those relating to the issuer's ESG performance and reporting.

~~D.2.4 Issuers should disclose, in the Corporate Governance Report, a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period. In particular, they should disclose:~~

~~(a) the process used to identify, evaluate and manage significant risks;~~

~~(b) the main features of the risk management and internal control systems;~~

~~(c) an acknowledgement by the board that it is responsible for the risk management and internal control systems and reviewing their effectiveness. It should also explain that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss;~~

~~(d) the process used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects; and~~

~~(e) the procedures and internal controls for the handling and dissemination of inside information.~~

D.2.52 The issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report.

*Notes: 1 An internal audit function generally carries out the analysis and independent appraisal of the adequacy and effectiveness of the issuer's risk management and internal control systems.*

*2 A group with multiple listed issuers may share group resources to carry out the internal audit function for members of the group.*

D.2.63 The issuer should establish a whistleblowing policy and system for employees

and those who deal with the issuer (e.g. customers and suppliers) to raise concerns, in confidence and anonymity, with the audit committee (or any designated committee comprising a majority of independent non-executive directors) about possible improprieties in any matter related to the issuer.

D.2.74 The issuer should establish policy(ies) and system(s) that promote and support anti-corruption laws and regulations.

### **Recommended Best Practices**

~~D.2.8 The board may disclose in the Corporate Governance Report that it has received a confirmation from management on the effectiveness of the issuer's risk management and internal control systems.~~

~~D.2.9 The board may disclose in the Corporate Governance Report details of any significant areas of concern.~~

## **F. SHAREHOLDERS ENGAGEMENT**

### **F.1 Effective communication and conduct of shareholders meetings**

#### **Principle**

The board should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation. In addition, the issuer should ensure that shareholders are given sufficient advance notice of shareholders meetings and provide sufficient information to enable shareholders to familiarise themselves with the detailed procedures for conducting a poll, and should arrange to address questions from shareholders in the shareholders meetings.

#### **Code Provisions**

~~F.1.1 The issuer should have a policy on payment of dividends and should disclose it in the annual report.~~

Dividends

### **~~F.2 Shareholders meetings~~**

#### **Principle**

~~The issuer should ensure that shareholders are given sufficient notice of shareholders meetings and are familiar with the detailed procedures for conducting a poll, and should arrange to address questions from shareholders in the shareholders meetings.~~



## Code Provisions

F.2.41.1 For each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting. Issuers should avoid “bundling” resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are “bundled”, issuers should explain the reasons and material implications in the notice of meeting.

*Note: An example of a substantially separate issue is the nomination of persons as directors. Accordingly, each person should be nominated by means of a separate resolution.*

F.21.2 The chairman of the board should attend the annual general meeting. The chairman of the board should also invite the lead independent non-executive director (if any) and the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence of any committee chairman, the chairman should invite another member of the committee or failing this their duly appointed delegate, to attend. These persons should be available to answer relevant questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders’ approval. An issuer’s management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors’ report, the accounting policies and auditor independence.

Lead  
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*Note: Subject to the issuer’s constitutional documents, and the laws and regulations of its place of incorporation, attendance by the above persons at a meeting by electronic means such as telephonic or videoconferencing may be counted as physical attendance.*

F.21.3 The chairman of a meeting should ensure that an explanation is provided of the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll.

## Recommended Best Practices

F.1.24 Issuers are encouraged to include the following information in their Corporate Governance Report:

- (a) details of shareholders by type and aggregate shareholding;

- (b) indication of important shareholders' dates in the coming financial year;
- (c) the percentage of public float, based on information that is publicly available to the issuer and within the knowledge of its directors as at the latest practicable date prior to the issue of the annual report; and
- (d) the number of shares held by each of the senior management.

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## Part C: Minor Rule Amendments

### Chapter 5

#### GENERAL

##### Directors

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5.06 An issuer shall immediately inform the Exchange and publish an announcement containing the relevant details and reasons if, at any time, the number of its independent non-executive directors falls below:

(1) the minimum number required under rule 5.05(1) or at any time it has ~~failed~~been unable to meet the requirement set out in rule 5.05(2) regarding qualification of the independent non-executive directors; or

(2) one-third of the board as required under rule 5.05A.

The issuer shall use all reasonable endeavours to appoint a sufficient number of independent non-executive directors to meet the minimum number required under rule 5.05(1) or 5.05A or appoint an independent non-executive director to meet the requirement set out in rule 5.05(2) on a timely basis, and in any case within three months after being unable to ~~failing to~~ meet the requirement(s).

...

##### Audit Committee

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5.33 An issuer shall, pursuant to rule 17.51(2), immediately inform the Exchange and publish an announcement in accordance with rule 16.17 containing the relevant details and reasons if the issuer ~~fails~~is unable to set up an audit committee or at any time has ~~failed~~been unable to meet any of the other requirements set out in rules 5.28 and 5.29 regarding the audit committee. ~~The issuer must~~ Issuers shall use all reasonable endeavours to set up an audit committee with written terms of reference and/or appoint appropriate members to the audit committee to meet the requirement(s) on a timely basis, and in any case within ~~three~~ months after being unable to ~~failing to~~ meet such requirement(s).

Board  
committee

...

##### Remuneration Committee

...

5.36 If the issuer ~~fails~~is unable to set up a remuneration committee or at any time has ~~failed~~been unable to meet any of the other requirements in rules 5.34 and 5.35, it must immediately publish an announcement containing the relevant details and reasons. ~~Issuers~~ The issuer must use all reasonable endeavours to set up a remuneration committee with written terms of reference and/or appoint appropriate members to it to meet the requirement(s) on a timely basis, and in any case within three months after being unable to ~~failing to~~ meet ~~them~~ such requirement(s).

...

### Nomination Committee

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5.36B The board of directors must approve and provide written terms of reference for the nomination committee which clearly establish its authority and duties.

5.36C If the issuer is unable to set up a nomination committee or at any time has been unable to meet any of the other requirements in rules 5.36A and 5.36B, it must immediately publish an announcement containing the relevant details and reasons. The issuer must use all reasonable endeavours to set up a nomination committee with written terms of reference and/or appoint appropriate members to it to meet the requirement(s) on a timely basis, and in any case within three months after being unable to meet such requirement(s).

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## Chapter 17

### EQUITY SECURITIES

#### CONTINUING OBLIGATIONS

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#### Trading and Settlement

##### *Closure of books and record date*

- 17.78 (1) An issuer must set a record date for determining the identity of securities holders eligible for attending and voting at the general meeting or receiving entitlements. An issuer must further announce (a) the record date and (b) any closure of its transfer books or register of members in respect of securities listed in Hong Kong. For a rights issue, such announcement must be made at least six business days before the record date (when there is no book closure) or book closure date~~the closure for a rights issue, or in all other cases, 10 business days before the record date (when there is no book closure) or book~~ the closure in other cases. ~~In cases where~~ Where there is an alteration of the record date or book closing dates, a further notice shall be given at least five business days before (i) the announced record date (where there is no book closure) / book closure or (ii) the new record date (where there is no book closure) / book closure, whichever is earlier, unless exceptional circumstances render the giving of such notice impossible, in which case, a further notice (by way of an announcement) should be given as soon as practicable, save that no further notice need be given in the circumstances referred to in rules 17.79 to 17.80. Where the issuer decides on a record date without book closure, these requirements apply to the record date.

Record date

...

Notes:

1. *For a rights issue, the issuer must provide at least two trading days for trading in the securities with entitlements (i.e. before the ex-date) after publication of the record date (when there is no book closure) or book closure. If trading on the Exchange is interrupted due to a typhoon, "extreme conditions" caused by a super typhoon (as defined in note 3 to rule 17.79) and/or a black rainstorm warning, the record date (when there is no book closure) or book-close date will be automatically postponed, where necessary, to provide at least two trading days (during neither of which trading is interrupted) for trading of the securities with entitlements during the notice period. In these circumstances the issuer must publish an announcement on the revised timetable.*

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## Chapter 18

### EQUITY SECURITIES

#### FINANCIAL INFORMATION

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##### Annual reports

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*Information to accompany directors' report and annual financial statements*

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- 18.47 If the relevant annual financial statements do not give a true and fair view of the state of affairs and profit or loss and cash flow of the listed issuer or group, more detailed and/or additional information must be provided.

*Note: If listed issuers are in doubt as to what more detailed and/or additional information should be provided, they should ~~apply to the Exchange for~~ seek guidance from the Exchange. As a minimum, the listed issuer shall provide the following information:*

- (a) details of the modifications and their actual or potential impact on the issuer's financial position;*
- (b) management's position and basis on major judgmental areas (such as basis for impairment or valuation of assets), and how management's view is different from that of the auditors;*
- (c) the audit committee's view towards the modifications, and whether the audit committee reviewed and agreed with management's position concerning major judgmental areas; and*
- (d) The issuer's proposed plans to address the modifications.*

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## APPENDIX III: MAPPING TABLE: PROPOSED RE-ARRANGEMENT OF CERTAIN SECTIONS OF THE CORPORATE GOVERNANCE CODE

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The left-hand column sets out the location of the relevant provisions in the current CG Code. The right-hand column sets out the new location of the relevant provisions (or parts thereof, some of which are to be revised) under the proposed re-arranged CG Code (with explanations, where applicable).

Current Location	Proposed New Location
<b>Part 1 – Mandatory Disclosure Requirements</b>	
<b>Paragraph J. Diversity</b>	<b>Paragraph J. Diversity</b>
Paragraph J(b)	Paragraph J(a) (see paragraph 129)
Paragraph J(c)	Paragraph J(b)
<b>Part 2 – Principles of Good Corporate Governance, Code Provisions and Recommended Best Practices</b>	
<b>Section B.1 Board composition, succession and evaluation</b>	<b>Section B.1 Board composition, succession and evaluation</b>
CP B.1.3	Upgraded to MDR paragraph J(a) (see paragraph 129 (b))
CP B.1.4	CP B.1.3
RBP B.1.5	Upgraded to CP B.1.4 (see paragraph 64)
<b>Section C.1 Responsibilities of directors</b>	<b>Section C.1 Responsibilities of directors</b>
CP C.1.1	Principle of section C.1
CP C.1.4	Principle of section C.1 and CP C.1.1 (see paragraph 46)
CP C.1.5	CP C.1.4
CP C.1.6	CP C.1.5
CP C.1.7	CP C.1.6
<b>Section D.2 Risk management and internal control</b>	<b>Section D.2 Risk management and internal control</b>
CP D.2.1	Principle of section D.2 and CP D.2.1
CP D.2.2	CP D.2.1
CP D.2.3	CP D.2.1
CP D.2.4	Upgraded to MDR paragraph H (see paragraph 143)
CP D.2.5	CP D.2.2
CP D.2.6	CP D.2.3
CP D.2.7	CP D.2.4
RBP D.2.8	Upgraded to MDR paragraph H(f) (see paragraph 143)
RBP D.2.9	Upgraded to MDR paragraph H(g) (see paragraph 143)
<b>Section F.1 Effective communication</b>	<b>Section F.1 Effective communication and conduct of shareholders meetings</b>
CP F.1.1	Upgraded to MDR paragraph M (see paragraphs 156 to 158)
RBP F.1.2	RBP F.1.4
<b>Section F.2 Shareholders meetings</b>	Deleted
Principle	Principle under section F.1
CP F.2.1	CP F.1.1
CP F.2.2	CP F.1.2
CP F.2.3	CP F.1.3

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## APPENDIX IV: PRIVACY NOTICE

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Hong Kong Exchanges and Clearing Limited and its affiliated companies (together "HKEX", "we", "our" or "us") are committed to protecting all Personal Data under our custody, control, or possession. "Personal Data" is any information that relates to an identifiable individual or can be used to identify an individual – sometimes the individual is referred to as a "Data Subject" or consumer.

This privacy notice ("Notice") applies to the Personal Data we collect and further process from Data Subjects who respond to our public consultation papers.

If the correct Personal Data is not submitted to HKEX then we may not be able to ensure the correct details are published or contact respondents if we have queries about their comments and/or, we may be unable to process requests relating to their rights as Data Subjects under the applicable data protection laws.

### What Personal Data do we collect and how do we collect it?

#### Information directly submitted by or collected from you:

- Identity data such as name and position in a company;
- Contact data such as phone number and email address;
- Opinion data such as your response to the consultation paper; and
- Communications data such as subsequent correspondence with you to clarify your comments or to confirm your identity data.

#### For Data Subjects in Mainland China:

- to verify your identity, we may process your name, position, phone number, and email address;
- to communicate with you, we may process your name, position, phone number, and email address;
- to register your response in our records or change your response upon your request, we may process your name, position, answers and reasons for those answers; and
- to prepare our publication material, we may process and publish your name and position (where your consent has been provided), and your answers and reasons for those answers.

#### For Data Subjects who are California residents:

To the extent the California Privacy Rights Act applies, the types of Personal Data we collect (and have collected in the past 12 months) includes the categories listed below, as defined by California state law:

Category	Source	Purpose of Processing
<b>Personal identifiers</b> such as your name and email address	Collected directly from you	For verification of identity, clarification of comments, record keeping and/or publication
<b>Information About You</b> including your name, position, and telephone number		

### Why do we use the Personal Data and how do we use it?



The “**Legal Basis**” is what data protection laws set out as the lawful reasons for processing Personal Data, such as a legitimate interest to operate our business so long as it does not materially and adversely impact your interests, rights, and freedoms.

<b>Legal Basis</b>	<b>Purpose</b>
Legitimate Interests	<ul style="list-style-type: none"> <li>Opinion data as part of the consultation process to understand the market/public response to the proposal(s) set out in the consultation;</li> <li>Identity and contact data to verify and clarify responses;</li> <li>Identity data where consent has been provided for external publication;</li> </ul>
Public Interest	<ul style="list-style-type: none"> <li>We may also process your personal data on the basis that it is necessary for the performance by HKEX of a task in the public interest.</li> </ul>
Consent	<p><u>Separate consent</u></p> <ul style="list-style-type: none"> <li>Required if you are a Data Subject in Mainland China and we need to share your Personal Data with a third party, publicly disclose it, or transfer it outside Mainland China.</li> </ul>
Legal Regulatory Obligations	<p>or</p> <ul style="list-style-type: none"> <li>Discharge the functions of HKEX and any company of which HKEX is the recognised exchange controller;</li> <li>Comply with a court order, subpoena or other legal process;</li> <li>Comply with a request by a government authority, law enforcement agency or similar body; and</li> <li>Comply with laws applicable to us including domestic data protection laws.</li> </ul>

### **Do we disclose Personal Data to third parties or transfer it to another jurisdiction?**

HKEX discloses Personal Data to one or more third party organisations that enable us to process public consultation papers and these include:

- Affiliates of Hong Kong Exchanges and Clearing;
- Our contractors or vendors who provide telecommunications, IT security, or other technical assistance;
- Our vendors who facilitate the availability of online forms;
- Our vendors who provide strategy or other consultancy services in respect of our businesses; and
- Our agents, contractors or vendors who provide administrative support to us.

To fulfil our legal obligations, we may also share your Personal Data with courts, regulatory authorities, government and law enforcement agencies, and other public authorities.

Further details about these third parties may be provided upon request to the address in the “Contact Us” section below. We shall endeavour to provide such information to the extent we are required to do so under applicable data protection laws.

Where required under applicable data protection laws, HKEX will only disclose Personal Data to third parties with your prior consent. In certain jurisdictions, HKEX may also be required to take additional measures prior to giving effect to such transfers (e.g. carrying out privacy impact assessments prior to the transfer).

HKEX may process Personal Data outside of the Data Subject's home jurisdiction, including sharing the Personal Data with third parties. HKEX shall use reasonable endeavours to ensure that the laws and regulations of the destination jurisdiction shall offer the same or comparable level of protection for Personal Data. Where this is not the case, we shall ensure appropriate safeguards are in place at the time of the transfer by implementing standard contractual clauses or other data transfer mechanism approved by the authorities of the relevant jurisdiction. Where required under applicable data protection laws, we shall also carry out additional measures for the offshore transfer such as carrying out a privacy impact assessment.

The regions where the Personal Data may be hosted or transferred to will vary from time to time, but typically include Hong Kong, the UK, US, EU, Switzerland, Singapore, Japan, India, and Mainland China.

Further details on the processing locations and our measures for safeguarding international transfers (including adequacy decisions) may be obtained upon request to the address in the "Contact Us" section below.

### **How long do we keep the Personal Data?**

Personal Data is retained in accordance with our internal policies, including our Group Record Retention Policy, and applicable law.

Your Personal Data will be retained by us for as long as is necessary to fulfil the purposes required for the processing. HKEX will also refer to the following factors when determining or confirming the appropriate retention period of Personal Data:

- the original purpose of collection;
- the termination of any contract involving the Data Subject's Personal Data;
- the limitation period as defined in the applicable law;
- the existence of any legal or regulatory investigations or legal proceedings;
- specific laws or regulations setting out HKEX's functions, obligations, and responsibilities;
- retention period set out in non-statutory guidelines issued by our regulators or international bodies; and
- the sensitivity of the Personal Data and the degree of risk from the associated processing activity.

For Data Subjects in Mainland China, we usually retain the Personal Data for not more than 3 years from the last activity or interaction with us. Further details of our Personal Data retention period may be obtained upon request to the address in the "Contact Us" section below.

Where any Personal Data is no longer necessary for the purposes for which it is collected, we shall cease the processing of that Personal Data as soon as reasonably practicable (although copies may be retained as necessary for archival purposes, for use in any actual or potential dispute, or for compliance with applicable laws), and take reasonable measures to destroy the relevant Personal Data.

### **How do we keep your Personal Data secure?**

We will take all practicable and reasonable steps to promote the security of the Personal Data we process in a manner consistent with applicable data protection laws and established international security standards. This includes physical, technical and administrative safeguards, to help prevent unauthorised access, collection, use, disclosure, copying,

modification, disposal or similar risks, and the loss of any storage medium or device on which the Personal Data is stored, and to maintain the general security of the data.

### **Rights over the Personal Data**

As a summary, the following Data Subject rights may be exercised to the extent provided under applicable data protection laws:

- confirm whether we hold the Data Subject's Personal Data and the type of Personal Data held by us;
- access a copy of the Personal Data held by us;
- delete your Personal Data held by us;
- correct or supplement your Personal Data where it is found to be inaccurate;
- restrict the processing performed on your Personal Data;
- withdraw consent to the processing of your Personal Data in certain situations (e.g. processing carried out on the basis of our legitimate interests); and
- transfer the Personal Data to another party in a machine readable format.

In certain jurisdictions, Data Subjects may also be provided with additional rights.

<b>California</b>	<ul style="list-style-type: none"><li>• Request that we disclose the categories of third parties with whom we have shared the information and the categories of Personal Data that we have shared with third parties for a business purpose.</li></ul>
<b>Mainland China</b>	<ul style="list-style-type: none"><li>• Explanation on the rules of processing the Personal Data;</li><li>• Extension of the Data Subject rights to a surviving next-of-kin where the applicable laws permit; and</li><li>• Transfer of your Personal Data to your designated party, where the applicable laws permit.</li></ul>
<b>United Kingdom and Europe</b>	<ul style="list-style-type: none"><li>• Right to object to processing. You have the right to object to processing to the extent we process your Personal Data because the processing is in our legitimate interests.</li></ul>
<b>Singapore</b>	<ul style="list-style-type: none"><li>• In certain circumstances, receive information about the ways in which the Personal Data has been or may have been used or disclosed by us in the year before the date of the request.</li></ul>

Where these rights apply, we shall use reasonable endeavours to fulfil the request or provide an explanation. Please note that under applicable data protection law, we are only obligated to respond to Personal Data requests from the same Data Subject up to two times in a 12-month period, and we may be limited in what Personal Data we can disclose which is also for the protection of your Personal Data.

We will endeavour to respond to you as soon as possible and, in any event, within the timeframe stipulated under the applicable data protection law. In the event of a potential delay, we will provide an explanation and the expected timeframe for delivery. Under applicable data protection law, we may also be required to charge a reasonable fee for the cost of processing the request.

Please note that we may need to seek confirmation of identity or clarification in order to fulfil the request. If you as the Data Subject would like to appoint an authorised agent to make a request on your behalf, we may require you to verify your identity with us directly before we provide any requested information to your authorised agent unless your authorised agent has power of attorney or acts as a conservator. Information collected for purposes of verifying your request will only be used for verification. For deletion requests, you will be required to submit a verifiable request for deletion and then confirm separately that you want Personal Data about you deleted.

If you would like to exercise your data subject rights, please contact the HKEX Group Data Protection Office via one of the channels below.

### **Contact Us**

If you have any questions or comments relating to the content of this Notice, report any concerns about our Personal Data processing, or if you would like to exercise your Data Subject Rights, please contact us through the channels below:

Group Data Protection Officer  
GDPO Office  
Hong Kong Exchanges and Clearing Limited

8/F., Two Exchange Square8 Connaught Place  
Central  
Hong Kong  
[DataPrivacy@hkex.com.hk](mailto:DataPrivacy@hkex.com.hk)

UK Representative:  
10 Finsbury Square, London, EC2A 1AJ, United Kingdom

EU Representative:  
De Cuserstraat 91, 1081 CN Amsterdam, Postbus/PO Box 7902, 1008 AC Amsterdam,  
Netherlands [hkex.eurep@eversheds-sutherland.com](mailto:hkex.eurep@eversheds-sutherland.com)

Please include the following details in any request to exercise your Data Subject Rights:

Identity of Data Subject

- Full Name
- Company Name
- Email Address
- Address of principal residence
- Identity particulars if acting on behalf of a Data Subject
- Contact *details held on file or Document(s) to verify identity*

Nature of the Request

- Product or Service to which the Data Subject has subscribed
- Specific Right
  - Purpose of the Request
  - Preferred communication channel and address for receiving the results of the request
  - Document(s) to support the rights request

Any Data Subject who has contacted us to express concerns about the way we manage their Personal Data and is of the view that we have not addressed the matter satisfactorily, may also contact the relevant privacy regulator to resolve the matter or seek assistance.

The privacy regulator in the United Kingdom is the Information Commissioner, who may be contacted at <https://ico.org.uk/make-a-complaint/> or by post to: Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF, United Kingdom.

If you live outside of the UK, you may contact the relevant data privacy regulator in your country of residence.

# Hong Kong Exchanges and Clearing Limited

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