

ANALYSIS OF CORPORATE GOVERNANCE  
PRACTICE DISCLOSURE IN  
2014 ANNUAL REPORTS

**November 2015**



**Hong Kong Exchanges and Clearing Limited**  
**香港交易及結算所有限公司**

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# EXECUTIVE SUMMARY

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1. The Stock Exchange of Hong Kong Limited (“**Exchange**”) recently completed its 2014 review (“**2014 Review**”) of issuers’ compliance with the Corporate Governance Code and Corporate Governance Report (“**Code**”).<sup>1</sup> The last review was conducted in 2012 (“**2012 Review**”).
2. The 2014 Review involved analysing the disclosures made by 1,237 issuers<sup>2</sup> in their 2014 annual reports, covering the financial period from 1 January to 31 December 2014. The 1,237 issuers represent approximately 70% of all issuers listed as at 31 December 2014. The issuers in this review have been selected on the basis that they have a financial year-end date of 31 December.
3. Consistent with the 2012 Review, the results of the 2014 Review demonstrate issuers’ high level of compliance with the Code, with a significant majority of issuers either complying with all, or all but one to two, of its Code Provisions (“**CPs**”).<sup>3</sup>
4. Chapter 2 contains a summary of the results and findings of the 2014 Review. Chapter 3 sets out a summary of the explanations given by issuers in respect of the five CPs with the lowest compliance rates and our comments. It also includes a commentary on the quality of the issuers’ explanations.
5. Whilst the results of the 2014 Review show that most issuers have responded positively to the substantive revision of the Code in 2012 and the introduction of the board diversity CP<sup>4</sup> in 2013 (see paragraphs 7 and 8), we highlight some areas that require improvement in Chapter 3.

## Key Findings

- 35% of issuers complied with all the CPs.
- 98% of issuers complied with 70 or more CPs, out of 75.
- As with the 2012 Review, issuers with a larger market capitalisation achieved a higher overall compliance rate than those with a smaller market capitalisation.
- Hang Seng Index (“**HSI**”) companies’ overall compliance rate was 3.3% higher than that of non-HSI companies<sup>5</sup>.
- The five CPs with the lowest compliance rates were as follows:
  - **A.2.1:** separation of the roles of chairman and chief executive;
  - **A.6.7:** non-executive directors’ attendance at general meetings;

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<sup>1</sup> Appendix 14 of Main Board Listing Rules and Appendix 15 of GEM Listing Rules.

<sup>2</sup> 1,117 Main Board issuers and 120 GEM issuers.

<sup>3</sup> Code Provisions are subject to “comply or explain”, see paragraph 6.

<sup>4</sup> CP A.5.6.

<sup>5</sup> 38.1 % versus 34.8%.

- **A.4.1:** non-executive directors being appointed for a specific term, subject to re-election;
  - **E.1.2:** chairman's attendance at annual general meeting (“**AGM**”); and
  - **A.5.1:** establishment of a nomination committee which is chaired by the chairman of the board or an independent non-executive director.
- For Recommended Best Practices (“**RBP**s”), key findings include:
    - 12% of issuers reported whether they had complied with RBPs; and
    - 47% of issuers disclosed having an internal audit function.

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## CHAPTER 1: INTRODUCTION

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6. One of the roles of the Exchange is to provide a sound and effective corporate governance framework for issuers in the furtherance of investor protection. To this end, the Exchange introduced the Code in 2005, which sets out the principles of good corporate governance and two levels of recommendations: (a) CPs; and (b) RBPs. Issuers are required to state whether they have complied with the CPs in their interim and annual reports, and explain if there is any deviation. The RBPs are for guidance only.
7. In December 2010, the Exchange conducted an extensive review of the Code and proposed a number of amendments to the Code and associated Rules. The proposals received strong market support and the revised Code<sup>6</sup> became effective on 1 April 2012.
8. In September 2012, the Exchange consulted on revising the Code to include a provision on board diversity. The resulting CP A.5.6 became effective on 1 September 2013. It provides that the nomination committee (or the board) of the issuer should, on a “comply or explain” basis, have a policy concerning diversity of board members, and disclose the policy or a summary of the policy in the corporate governance report.
9. In June 2014, the Exchange consulted on a review of the internal control section (Section C) of the Code. The amendments to the Code (see paragraphs 32 to 36 for key amendments) will be implemented for issuers’ accounting periods beginning on or after 1 January 2016.

### The “Comply or Explain” Approach

10. The results of the 2014 Review show that most issuers have responded positively to the substantive revision of the Code in 2012 and the introduction of the board diversity CP in 2013 (see paragraphs 7 and 8).
11. It is also important to bear in mind that deviations from CPs are acceptable. As set out in the “*What is “comply or explain”?*” section of the Code, where an issuer considers a more suitable alternative to a CP exists, it should adopt it and give reasons. Shareholders should not consider departures from the CPs as breaches. They should carefully consider the reasons given by issuers in the “comply or explain” process, taking into account the purpose of the corporate governance principles.

### Scope of Review

12. We examined the annual reports of 1,237 issuers with a financial year-end date of 31 December 2014, which represents approximately 70% of all issuers as at 31 December 2014.

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<sup>6</sup> Nine new CPs were introduced and 21 RBPs were upgraded to CPs. One CP (*issuers should establish a remuneration committee with specific terms of reference*) and one RBP (*an issuer should appoint independent non-executive directors representing at least one third of the board*) were modified and upgraded to Rules.

13. We analysed the statistics in the following areas:
  - (a) overall compliance rate of CPs;
  - (b) disclosed compliance rates of RBPs; and
  - (c) disclosed compliance rates in relation to internal control.
14. For the five CPs with the lowest compliance rates, we set out a summary of the explanations given and our comments.
15. A summary of statistics regarding the level of compliance with each CP forms the **Appendix**.

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## CHAPTER 2: RESULTS AND FINDINGS

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16. In this chapter, we will look at:

- (a) compliance rate of the CPs from the following perspectives:
  - overall;
  - market capitalisation;
  - HSI versus non-HSI companies; and
  - board diversity;
- (b) disclosure and compliance rates of RBPs; and
- (c) disclosure and compliance rates, and the recent Code amendments regarding internal control.

### A. Compliance Rate of CPs

#### Overall

17. Our review showed that 35% of issuers reported full compliance with all CPs. A further 34% complied with all but one of the 75 CPs.
18. Despite a slight drop (i.e. 1%) from the 2012 Review in the percentage of issuers that complied with all CPs, 98% of the issuers reviewed complied with 70 or more CPs, out of 75. These results indicate that issuers' compliance with the Code remains broadly the same. See **Table A**.

**Table A: Number of CPs<sup>7</sup> disclosed by issuers as compliant**

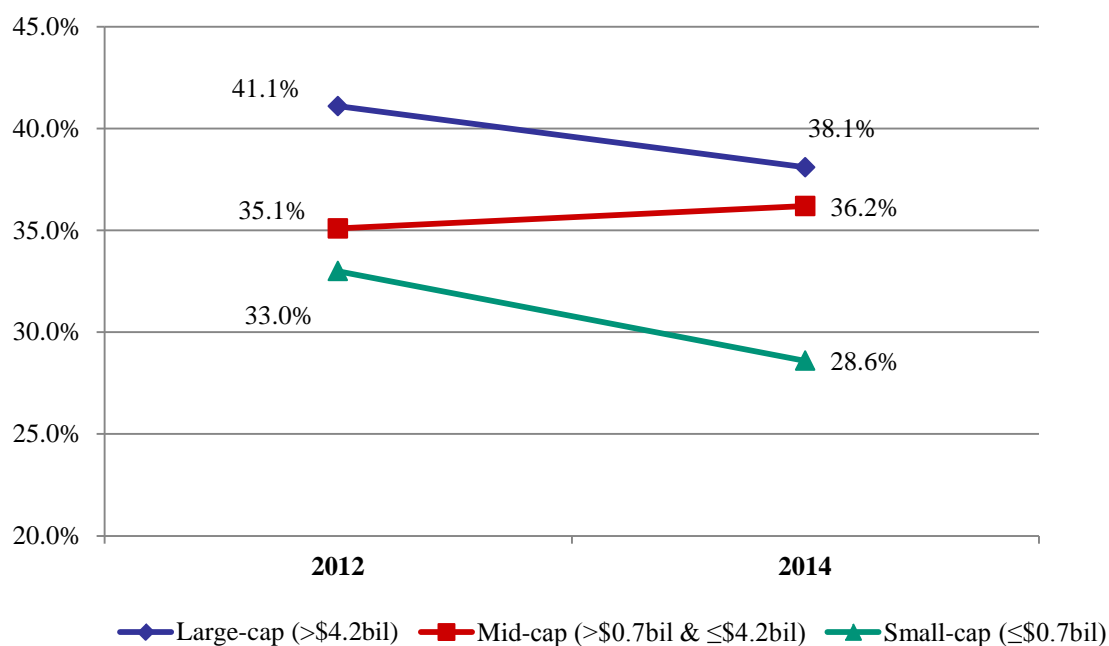
Number of CPs complied	2014		2012	
	Number of issuers	Percentage of issuers	Number of issuers	Percentage of issuers
75	433	35%	---	---
74	416	34%	395	36%
73	210	17%	386	36%
72	88	7%	185	17%
71	53	4%	53	5%
70	15	1%	35	3%
<70	22	2%	29	3%
Total	1,237	100%	1,083	100%

<sup>7</sup> At the 2012 Review, there were 74 CPs. The introduction of CP A.5.6 on 1 September 2013 brought the total number of CPs to 75 at the 2014 Review.

## Market Capitalisation

19. We examined the overall compliance rates of issuers by reference to their market capitalisation. Issuers are divided into large-cap, mid-cap and small-cap groups.<sup>8</sup> Consistent with previous reviews, the results show that large-cap issuers achieved a higher rate of compliance than mid-cap and small-cap issuers.
20. Compared with the 2012 Review, the rate of full compliance has dropped slightly for large-cap and small-cap issuers (i.e. by 3% and 4.4%, respectively). See **Chart A**.

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



## HSI versus non-HSI companies

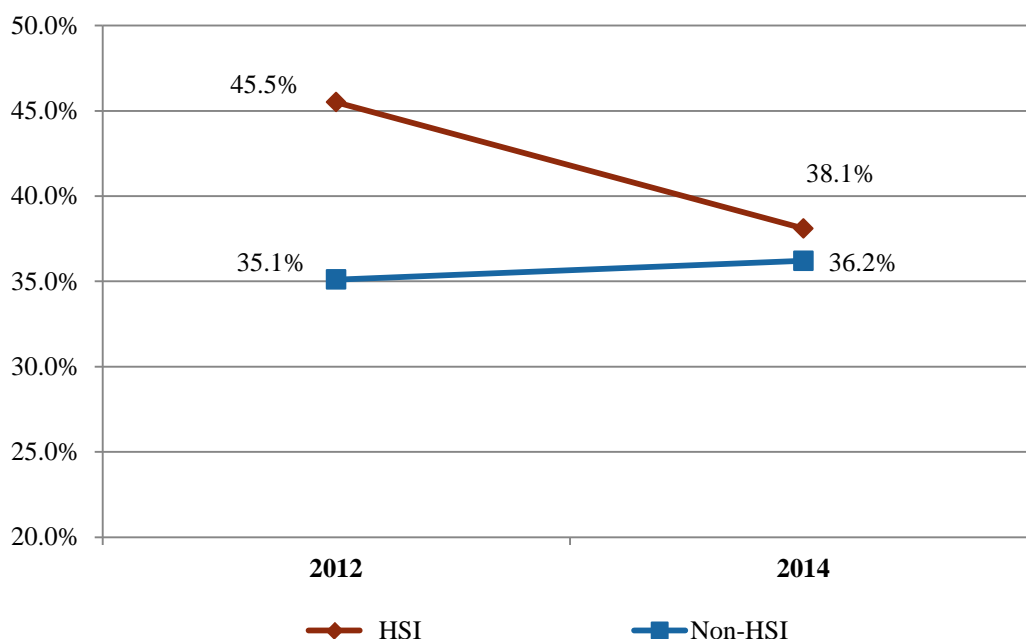
21. We compared the overall compliance rate of HSI and non-HSI companies.<sup>9</sup> The overall compliance rate of HSI companies was 3.3% higher than that of non-HSI companies. The gap has narrowed since 2012. See **Chart B**.

<sup>8</sup> As with the 2012 Review, the 2014 Review defines “large-cap” as issuers with a market capitalisation of greater than HK\$4.2 billion, “mid-cap” as issuers with a market capitalisation greater than HK\$0.7 billion and smaller than or equal to HK\$4.2 billion, and “small-cap” as issuers with a market capitalisation of smaller than or equal to HK\$0.7 billion. Large-cap, mid-cap and small-cap groups accounted for 37%, 39% and 24% respectively of the issuers reviewed.

<sup>9</sup> 42 out of the 50 HSI companies had a financial year-end at 31 December 2014.



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



### **Board Diversity**

22. Effective on 1 September 2013, the nomination committee (or the board) should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report (CP A.5.6).
23. In mid-2014, we spot-checked the annual reports of issuers with 31 December 2013 year-ends, and noted that a number of issuers neither disclosed the policies (or a summary of the policies) nor gave considered reasons for non-disclosure. In view of this, we issued a letter to all issuers on 2 July 2014, urging them to take a closer look at their corporate governance reports and rectify any possible omissions in their next reports.
24. In the 2014 Review, we revisited the issuers' compliance level with CP A.5.6 and noted that 99% of the 1,237 issuers reported that they complied with this CP. We randomly selected 120 issuers, representing approximately 10% of the issuers that stated they complied with this CP, and examined their actual disclosures. We noted omissions in a small number of reports and will follow up with these issuers. Going forward, we will continue to monitor issuers' reporting in this regard.

### **B. Disclosure and Compliance Rates of RBPs**

25. Currently, the Code contains 11 RBPs. The RBPs are for guidance only. Issuers are encouraged, but not required, to disclose whether they have complied with RBPs. 12% of issuers disclosed their compliance with the RBPs, including 1% that stated full compliance, and 11% that stated partial compliance (only 1% specified which of the RBP(s) they had deviated from).

26. These figures may be an underestimation of RBP compliance because, unlike CPs, disclosure of RBP compliance (or non-compliance) is not mandatory. That said, we encourage issuers to treat RBPs as CPs, as this will bring issuers and our market more in line with international best market practices.

## C. Internal Control

### Internal Control Review

27. As we will be upgrading some of the RBPs in the internal control section of the Code to CPs, we have reviewed the issuers' disclosures in respect of the current Code.
28. Directors should at least annually conduct a review of the issuer's internal control systems (CP C.2.1). As with the 2012 Review, all issuers in the 2014 Review complied with this CP and stated that they had conducted at least one internal control review during the 2014 financial year.
29. Table B summarises the frequency of the issuers' internal control reviews in the 2012 Review and the 2014 Review based on the disclosures in their corporate governance reports. Compared with the 2012 Review, the percentage of issuers that did not specify the frequency of their review had risen by 12% in the 2014 Review.

**Table B: Frequency of Internal Control Review**

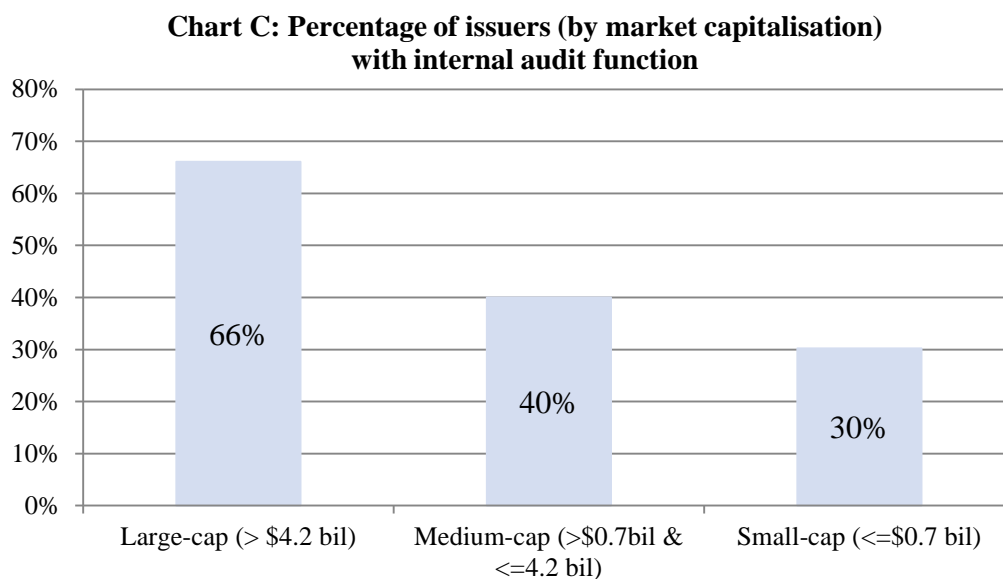
Frequency	2014		2012	
	Number of issuers	Percentage of issuers	Number of issuers	Percentage of issuers
Annually	736	60%	291	27%
Half-yearly	51	4%	310	28%
Quarterly	30	2%	116	11%
Other frequency (e.g. 3 or 5 times)	6	1%	139	13%
Not specified <sup>10</sup>	414	33%	227	21%
Total	1,237	100%	1,083	100%

### Internal Audit Function

30. It is an RBP that issuers without an internal audit function should review the need for one on an annual basis (RBP C.2.6). For the financial year 2014, 47% of all issuers examined disclosed they had an internal audit function, a slight drop from the 51% in 2012. However, the actual figure may be higher given that the obligation to disclose this is an RBP. This RBP will be upgraded to a CP for accounting periods beginning on or after 1 January 2016 (see paragraph 35).

<sup>10</sup> This means that the issuer did not specify the frequency of the review, but disclosed that a review had been carried out at least once during the financial year.

31. **Chart C** shows that it is more common for large-cap issuers than small- to mid-cap issuers to have an internal audit function.



### **Amendments to the Internal Control Section**

32. Following market consultation conducted in 2014, the Exchange revised the internal control section of the Code. Amendments to the Code will become effective for accounting periods beginning on or after 1 January 2016. We set out below a summary of the amendments made.
33. The Code will be amended to state that the board should oversee the issuer’s risk management and internal control systems on an ongoing basis (the modified CP C.2.1).
34. Issuers will be required (on a “comply or explain” basis) to disclose, in the Corporate Governance Report, a narrative statement on how they have complied with the risk management and internal control CPs during the reporting period (RBP C.2.4 upgraded to the new CP C.2.4).
35. Issuers should have an internal audit function, and issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report (RBP C.2.6 upgraded to the new CP C.2.5). The Exchange has made clear in a Frequently Asked Question (“**FAQ**”)<sup>11</sup> that outsourcing the internal audit function to competent persons would not be considered as a deviation from the new CP C.2.5.
36. Other key amendments to the Code include: incorporating risk management into the Code where appropriate; revising Principle C.2 to define the roles and responsibilities of the board and management; and upgrading to CPs the recommendations in relation to matters to consider in the annual review and disclosures in the Corporate Governance Report.

<sup>11</sup> FAQ Series 30, FAQ No. 5

## CHAPTER 3: ANALYSIS OF DEVIATIONS

37. The compliance rates of all CPs are set out in **Table 1** of the **Appendix**. The ten CPs with the lowest compliance rates and the percentage of issuers that deviated from the CPs are set out in **Chart 1** of the **Appendix**.

### A. The Five CPs with the Lowest Compliance Rates and Issuers' Reasons

38. The five CPs with the lowest compliance rates in the 2014 Review were A.2.1, A.6.7, A.4.1, E.1.2 and A.5.1.

39. Compared with the 2012 Review, CP A.6.7 has replaced CP A.4.2 as one of the top five most deviated CPs. See **Table C**.

**Table C: CPs with the lowest compliance rates in 2014 against 2012**

CPs		Compliance rates	
		2014 (in ascending order)	2012
A.2.1:	Separation of the roles of chairman and chief executive	64%	64%
A.6.7	Non-executive directors' attendance at general meetings	80%	100%
A.4.1	Non-executive directors being appointed for a specific term, subject to re-election	86%	82%
E.1.2	Chairman's attendance at AGM	87%	86%
A.5.1	Establishment of a nomination committee which is chaired by the chairman of the board or an independent non-executive director	95%	94%
A.4.2	Directors appointed to fill a casual vacancy being subject to election by shareholders at the first general meeting and every director being subject to retirement by rotation at least once every three years	95% <sup>12</sup>	94%

40. The top five CPs with the lowest compliance rate in the 2014 Review are examined further below. In addition to summarising the reasons for deviations, we set out our comments.

<sup>12</sup> For ease of comparison, the compliance rate of CP A.4.2 was 95.5% (to one decimal place), whilst the compliance rate of CP A.5.1 was 94.8% (to one decimal place).

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

### **Summary of Explanations**

41. The most common reason issuers gave for departure from the CP was that one person performing the roles of both chairman and chief executive can provide strong and consistent leadership, and can enable more effective planning and better execution of long-term strategies.
42. A significant number of issuers that deviated from this CP disclosed that the board has confidence in the person who acts as both chairman and chief executive, because that person possesses ample knowledge of the issuer's operations.
43. Some issuers explained that contributions are made by the board as a whole; all executive and non-executive directors bring diverse experience and expertise to the board. They have regular discussions in relation to the issuer's operations and are, in practice, collectively playing the roles of chairman and chief executive.
44. Other reasons given include: the size of the group, the scope and nature of the company business, or a practical necessity arising from the corporate operating structure.
45. Amongst those that deviated from this CP, 27% (i.e. 119 issuers) took follow-up actions or explained the mitigation action they had taken. For example, a number of issuers were non-compliant with the CP for only part of the year due to the resignation of the chairman or chief executive. Some of them had subsequently complied during the year by recruiting a replacement.
46. The statistics relating to the reasons given for the deviation from this CP are set out in **Table 2** of the **Appendix**.

### **Our Comments**

47. Where the roles of chairman and chief executive are combined, powers and authority tend to be vested in one individual, causing the leadership to lack checks and balances. If an issuer decides to deviate from this CP, it is expected to address this issue.
48. Separation of the roles of chairman and chief executive is considered best practice and is adopted in many other jurisdictions, including the UK, Singapore and Australia.

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

## Summary of Explanations

49. This CP was upgraded from a RBP in April 2012. The compliance rate with this CP has dropped by 20%, compared to the 2012 Review.
50. Amongst those that deviated from this CP, a substantial majority stated that their non-executive directors failed to attend meetings due to other business engagements. Some issuers only briefly disclosed that their non-executive directors were not available or travelling overseas.
51. Amongst those that deviated from this CP, 9% (i.e. 22 issuers) took mitigation action. For example, those directors who failed to attend held follow-up meetings with the chairman of the board to express their opinions or concerns on the subject matters. About 3.5% (i.e. 9 issuers) included an action plan for achieving compliance in the coming year, such as scheduling meetings earlier to avoid timetable clashes.
52. The statistics relating to the reasons given for the deviation from this CP are set out in **Table 3** of the **Appendix**.

## Our Comments

53. General meetings act as a channel of communication between the board and shareholders. 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, he 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.
54. The follow-up meetings with the chairman (paragraph 51) would not address the purpose of the CP, i.e. to enable communication with shareholders.
55. We remind all directors to ensure they understand their obligations. The Exchange expects the directors to fulfill fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. Every director must perform his duties as set out in Main Board Rule 3.08 (GEM Rule 5.01). A director should ensure that he can give sufficient time and attention to the issuer's affairs and should not accept the appointment or should step down if he cannot do so.
56. Each director should disclose to the issuer at the time of his appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments.

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

## Summary of Explanations

57. The compliance level with this CP has improved by 4% from the 2012 Review.

58. Among the issuers that did not comply with CP A.4.1, most stated that non-executive directors are not appointed for a specific term but are subject to retirement by rotation<sup>13</sup> at least once every three years at each AGM according to their articles of association, by-laws or equivalent constitutional document.

### **Our Comments**

59. It is widely recognised as good corporate governance that non-executive directors should be appointed for a specific term, preferably 12 months.<sup>14</sup> Retirement by rotation is another corporate governance measure that seeks to limit a director's tenure.
60. Both corporate governance measures in paragraph 59 serve the purpose that the company should periodically seek shareholders' re-election of directors (non-executive directors in the case of CP A.4.1) so as to prevent entrenchment.
61. Whilst Model Articles often provide for retirement by rotation, it is not a statutory requirement for directors to retire by rotation in jurisdictions such as Hong Kong<sup>15</sup> and the UK<sup>16</sup>.
62. We therefore believe that issuers should treat CP A.4.1 and the practice of retirement by rotation separately, and should specify the period of appointment of non-executive directors at intervals of no more than three years.

*E.1.2 - The chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. An issuer's management should ensure the external auditor attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.*

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<sup>13</sup> Retirement by rotation generally refers to a process whereby at each AGM one third of the directors must retire from their position and seek re-election as a director.

<sup>14</sup> Code Provision B.7.1 of the UK Corporate Governance Code provides that "All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years." In the US, the Institutional Shareholder Services Inc.'s press release on its 2015 Board Practices Study states: "The majority of companies in the S&P 1500 hold annual elections for directors. While this has been the norm for a number of years at larger companies, for the first time since our analysis began in 1996, more than 50 percent of Small Cap companies have declassified their boards and turned to annual elections for directors."

<sup>15</sup> Section 79 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) states that a company may adopt as its articles any or all of the provisions of the model articles prescribed for the type of company to which it belongs.

<sup>16</sup> According to section 20 of the UK Companies Act 2006, on the formation of a limited company – (a) if articles are not registered, or (b) if articles are registered, in so far as they do not exclude or modify the relevant model articles, the relevant model articles (so far as applicable) form part of the company's articles.

## Summary of Explanations

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

## Our Comments

65. An AGM is a major corporate event. It allows shareholders, company management and directors to examine and make decisions on important affairs of the company. It is also a main channel of communication between the board and the shareholders.
66. The chairman of the board is responsible for ensuring that the board works effectively when performing its responsibilities. As the leader of the board, the chairman is generally expected to prioritise the issuer's AGM over and above his other commitments.
67. Instead of merely stating that the absentees had other commitments (similar to the explanations provided for failures to comply with CP A.6.7, see paragraph 50), an issuer should explain the efforts made and the specific reasons for the relevant directors' non-attendance at the AGM.

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

## Summary of Explanations

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

## Our Comments

71. The principal responsibility of the nomination committee is to review the size, structure and composition of the board, and to identify and recommend appropriate candidates for



election or re-election to the board. The work of the committee has a tremendous influence on the future success of the board and the issuer.

72. Where an issuer chooses to depart from this CP, it should set out the circumstances that are peculiar to the company to explain such departure. This adds more value than vague explanations that appear to be a “boilerplate” response used by a number of issuers.

## **B. Quality of Explanation**

73. Whilst the results of the 2014 Review show that most issuers have responded positively to the substantive revision of the Code in 2012 and the introduction of the board diversity CP in 2013 (see paragraphs 7 and 8), we highlight below some areas that require improvement.
74. The quality of explanations given for non-compliance was varied. Some issuers gave informative reports that set out why they departed from a particular CP, what they would do to rectify the deviation, and whether the departure was temporary. In general, however, there is room for improvement. We observed a certain degree of “boilerplate” style explanations which were vague and had been repeated year after year.
75. The Exchange recognises that issuers vary significantly in their individual characteristics, size and complexity of operations, and the nature of the risks and challenges they face. No single set of corporate governance standards fits all issuers, just as no single set of explanations for deviations from a CP is applicable to all. Issuers should explain why they choose to deviate from the CP(s) based on their own circumstances.
76. For the “comply or explain” regime to be effective, issuers need to give proper consideration to their explanations to ensure that they are as full as necessary to meet shareholders’ expectations.

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## APPENDIX: SUMMARY OF STATISTICS

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**Table 1: Compliance rate of each CP**

CPs	Compliance rates	
	2014	2012
A.1.1	98%	98%
A.1.2	100%	100%
A.1.3	99%	100%
A.1.4	100%	100%
A.1.5	100%	100%
A.1.6	100%	100%
A.1.7	100%	99%
A.1.8	98%	96%
A.2.1	64%	64%
A.2.2	100%	99%
A.2.3	100%	100%
A.2.4	100%	100%
A.2.5	100%	100%
A.2.6	100%	100%
A.2.7	96%	97%
A.2.8	100%	100%
A.2.9	100%	100%
A.3.1	100%	100%
A.3.2	100%	100%
A.4.1	86%	82%
A.4.2	95% <sup>17</sup>	94%
A.4.3	100%	100%
A.5.1	95% <sup>18</sup>	94%
A.5.2	97%	96%
A.5.3	97%	96%
A.5.4	97%	96%
A.5.5	100%	99%
A.5.6	99%	Not applicable <sup>19</sup>
A.6.1	100%	100%
A.6.2	100%	100%
A.6.3	100%	100%
A.6.4	100%	100%
A.6.5	100%	100%
A.6.6	100%	100%
A.6.7	80%	100%
A.6.8	100%	100%

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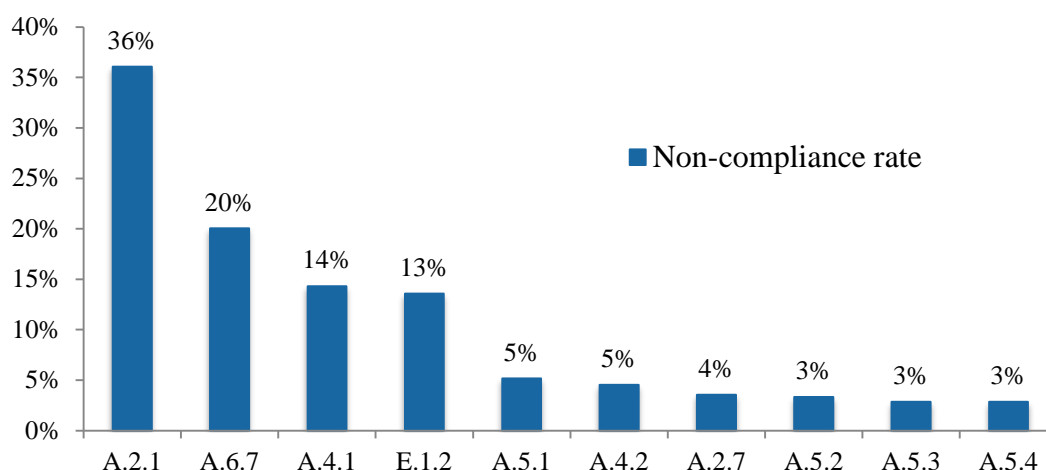
<sup>17</sup> See footnote 12.

<sup>18</sup> See footnote 12.

<sup>19</sup> CPA.5.6 came into effect on 1 September 2013.

CPs	Compliance rates	
	2014	2012
A.7.1	100%	100%
A.7.2	100%	100%
A.7.3	100%	100%
B.1.1	100%	100%
B.1.2	99%	99%
B.1.3	100%	100%
B.1.4	100%	100%
B.1.5	100%	100%
C.1.1	100%	100%
C.1.2	99%	99%
C.1.3	100%	100%
C.1.4	100%	100%
C.1.5	100%	100%
C.2.1	100%	100%
C.2.2	100%	100%
C.3.1	100%	100%
C.3.2	100%	100%
C.3.3	99%	99%
C.3.4	100%	100%
C.3.5	100%	100%
C.3.6	100%	100%
C.3.7	100%	100%
D.1.1	100%	100%
D.1.2	100%	100%
D.1.3	100%	100%
D.1.4	98%	97%
D.2.1	100%	100%
D.2.2	100%	100%
D.3.1	100%	100%
D.3.2	100%	100%
E.1.1	100%	100%
E.1.2	87%	86%
E.1.3	100%	100%
E.1.4	100%	100%
E.2.1	100%	100%
F.1.1	99%	99%
F.1.2	100%	100%
F.1.3	99%	99%
F.1.4	100%	100%

**Chart 1: The ten CPs with the lowest compliance rates**



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

Reasons	Number of issuers	% of issuers deviated from CP A.2.1
The same person provides the Group with strong and consistent leadership, allows for more effective planning/formulation and execution/implementation of long-term business strategies.	161	36%
The board has confidence in the person who acts as chief executive and chairman, e.g. because the person is knowledgeable, well-known and/or has a good understanding of the operations of the issuer.	60	13%
Contributions are made by all executive directors/independent non-executive directors, who bring different experience and expertise and who meet regularly to discuss issues affecting the issuer's operations.	51	11%
Due to the size of the Group, the scope and/or nature of its business and/or a practical necessity arising from the corporate operating structure.	38	9%
The issuer considers its structure is sufficiently consistent with the Code and the deviation has no materially adverse impact on its corporate governance structure.	8	2%
The responsibilities of the chairman and chief executive are clear and distinct and therefore need not be set out in writing.	3	1%
More than one of the above	68	15%
Others	57	13%
Total	446	100%

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

Reasons	Number of issuers	% of issuers deviated from CP A.6.7
Business engagement	152	61%
Health / other personal reason	18	7%
Others ( including oversea engagement, resignation and retirement)	74	30%
More than one of the above	4	2%
Total	248	100%

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

Reasons	Number of issuers	% of issuers deviated from CP E.1.2
Business engagement	120	71%
Health / other personal reason	8	5%
Others ( including oversea engagement, resignation and retirement)	38	23%
More than one of the above	2	1%
Total	168	100%

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

Parties	Number of issuers	% of issuers deviated from CP E.1.2
Chairman of the board	132	78%
Chairman of board committee(s)	28	17%
Both of the above	8	5%
Total	168	100%

