



LUND UNIVERSITY
School of Economics and Management

Master Programme:
Corporate and Financial Management
BUSM 36 Degree Project
VT 2010

The Comparative Study on Corporate Governance between Mainland China and Hong Kong

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Abstract

Title: The Comparative Study on Corporate Governance between Mainland China and Hong Kong

Course: BUSM 36, Master Thesis

Seminar Date: 20th December, 2010

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Key Words: Corporate Governance, Comparative study, Mainland China, Hong Kong, Ownership, Board, Shareholder protection

Purpose: Provide deeper understanding for similarities and differences of corporate governance between Mainland China and Hong Kong S.A.R. both at region level and company level. The reasons caused the differences and similarities are addressed as well.

Methodology: A qualitative research approach is applied in this paper aimed to provide deeper insights.

Conclusion: The corporate governance mechanism should be evaluated by both region and company levels, since legislation setting and regulatory enforcement are equally critical. It is found that Hong Kong outperforms than Mainland China at both levels, hereby more converge towards OECD Principles. There are root causes contributing to the differences and similarities of corporate governance in the regions, which mainly refer to the different nature of corporate governance system, legal origin, development stage of corporate governance, political system and traditional Chinese culture respectively.

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Chapter 1 Introduction

This chapter contains background introduction of corporate governance, problem discussion, research purpose, delimitation and finally the thesis outline.

1.1 Research Background

The corporate governance problem is accompanied by the generation of corporation. The core idea of corporate governance can be traced to Smith (1776) on his famous work *The Wealth of Nations*: when there is no exact consistency between ownership and control in the corporations, there is conflict of interest between owners and managers. To a very great extent, the modern theoretical development of corporate governance is based on how to limit and control such conflict of interests in order to improve the operational efficiency (Jiang, Xu, and Zhao, 2006). The modern study of corporate governance was started by Jensen & Meckling who published the cutting-edge thesis in 1976. In the mid 1980s, the term “corporate governance” had truly breakthrough in the US and had a strong and essential development since this period (Kruk & Nilsson, 2006). The most important reason for the fast development of corporate governance can be attributed to a series of collapses of world-wide prominent companies, such as WorldCom, Parmalat, and Hollinger, etc. Particularly, the Enron case is the most famous scandal. These disastrous events exploit the shortcomings of corporate governance, and trigger the demand of investors for effective corporate governance.

Many definitions of corporate governance are available that mainly describe corporate governance as a mechanism of checks and balances on corporate governance practices (Cheema, Johansson and Mir, 2009). Corporate governance is also defined to be relevant to private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship between corporate management (agent) and entrepreneurs (principal), as well as those stakeholders who invest resources in corporations, including shareholders, creditors, employees, and suppliers (Charles, 2001). The agency theory induced by the separation of ownership and control is considered to be the core issue of corporate governance. It concerns with aligning interest conflict of owners (principal) and managers (agent). Hence, the essence of corporate governance is the check and balance mechanism between shareholders and management (Cadbury, 1992). According to Cadbury (2000),

“Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.” In this definition, corporate governance has wider implications as it argues that it is critical to not only individuals but also economic and social well being (Clarke,2007)

*Emerging markets or emerging economies are those regions of the world that are experiencing rapid informationalization under conditions of limited or partial industrialization¹.Such economy is restructuring their economies along market-oriented lines and offers a wealth of opportunities in trade, technology transfers, and foreign direct investment².*According to the World Bank, the five biggest emerging markets are Mainland China, India, Indonesia, Brazil and Russia³. The increasing concern on the emerging economics and their important participation in the global business activities can be seen as another important reason for the rapid development of corporate governance. Since the corporate governance in emerging markets far lag behind especially on shareholder protection and information disclosure, which result in serious information asymmetries. Such information barrier prevents investors, especially foreign investors from engaging in the corporate governance activities, and hereby weakens their confidence to invest in that country. The research of OECD Development Centre supports this view. It is indicated that corporate governance matters for national development, their case studies conducted in the developing countries including Mainland China shows the growing importance of corporate governance on helping attract financial capital to companies (Charles, 2001). It also suggests that corporate governance has important influence on not only economic growth but also company performance (Andersson & Maher, 1999).

¹ Emerging Economic Report, available: <http://www.emergingeconomyreport.com/> ,[accessed on 29th August,2010]

² Chuan Li, What are emerging markets? Available: http://www.uiowa.edu/ifdebook/faq/faq_docs/emerging_markets.shtml,[accessed on 29th August,2010]

³ Ibid

*The corporate governance system is the system that consists of different elements cooperating and counteracting each other, which can influence companies, such as controlling owners, private owners, boards of directors, top management, auditors, institutions(i.e. legislation, codes)(Svensson,2009)*The taxonomy of systems of corporate governance in the world is basically categorized into two larger models of systems: market oriented system and network oriented system (Weimar & Pape,1999; Clarke, 2007) .They find that the country class systems adapting the market oriented system are mainly Anglo-Saxon system, Germanic system, while country class systems adapting network oriented system are mainly Latin and Japanese system. They also argue that Anglo Saxon system originated from the English speaking countries is regarded as the predominant international model. To act at the benefit of shareholders is the sole duty of corporations. It is considered to provide stronger legal protection to shareholders. Well-developed stock markets in Anglo Saxon countries make the managers disciplined by the market. While Germanic system emphasizes the enforcement of stakeholder rights, and managers are monitored by involved banks and controlling shareholders.

The tendency of economic globalization, takeover wave, and series of corporate scandals etc. has aroused a debate on best corporate governance system. The research of Hansmann & Kraakman (2004) finds that there is increased acceptance of superiority of Anglo Saxon system by international business, together with a phenomenon of global convergence towards this market-based system (Hansmann & Kraakman, 2004).But other researches show that there is contractual rather than one-sided convergence happening (Steen, 2003). Even, some research shows that it is no need for a move towards global corporate governance convergence. There exists political, cultural and institutional barriers; national systems should resolve their weaknesses to achieve a suboptimal system (Bratton & Mccahery, 1999).

Cheema, Johansson and Mir (2009) argue that OECD has been at forefront for issuing global corporate governance best practices. Its published document *OECD Principles of Corporate Governance (2004) (Principles)* is publicly known to be the international benchmark for effective corporate governance, providing specific guidance for legislative and regulatory initiatives in both OECD and non-OECD

countries.⁴ Rating agencies like ISS, GMI and S&P etc, offer ratings for corporate governance practices of companies from all over the world and guide investors to make correct investment decisions.

1.2 Problem Discussion

Investors ultimately choose to invest their capital where they can understand the risks and believe their investments are most likely to be well protected from fraud or other misuse (Cornelius, 2004). Corporate governance is one of the important mechanisms that can protect investor's interests.

The first reason to conduct this study is because of the necessity, since there have been too many corporate governance researches conducted in the major developed economics, such as the UK, the US, Germany and Japan, etc (Gregory & Moerke,2005; Mintz,2005; La Porta et al, 2000).The corporate governance systems in major developed economics differ significantly, and such difference is even larger when it comes to the emerging markets, like China and India (Cheema, Johansson and Mir, 2009) However, studies comparing the developed economies and developing economies are still very rare to be seen (Zhou & Panbunyuen, 2008; Kruk & Nilsson, 2006; Grahovar & Akesson,2004). Among those studies, Mainland China (shortly call the Mainland where is not equal to China, instead is regarded as a quits independent economy as Hong Kong within China) is mostly selected as a comparative economy to some developed economies, such as the UK, Sweden, and Australia (Zhou & Panbunyuen, 2008; Tomasic & Fu, 2006; Liu, 2005) instead of Hong Kong, which brings important value to conduct the comparison between Mainland China and Hong Kong on corporate governance, since they have rarely been chosen. According to FTSE Group, Hong Kong is recognized as a developed economy compared to Mainland China as a secondary emerging economy⁵. A comparative study of corporate governance among Asian economies indicates that Hong Kong S.A.R maintains significantly higher corporate governance standards, and argues that Hong

⁴ OECD Principles of Corporate Governance, 2004, p3

⁵ FTSE Global Equity Index Series Country Classification, available:http://www.ftse.com/Indices/Country_Classification/Downloads/FTSE_Country_Classification_Sept_09_update.pdf, [accessed on 30th August, 2010].

Kong has developed more sophisticated and adequate legislations to protect property rights than the rest of the countries in this region (Nam, Kang and Kim, 1999). According to GMI's corporate governance ranking, Hong Kong ranked the top in East Asia in 2006⁶. Even in 2010, Hong Kong still ranked significantly higher than Mainland China⁷. Therefore, a comparative study between Mainland China regarded as the biggest emerging economy and Hong Kong regarded as one of developed economies in East Asia has profound meanings in understanding and guiding the development of corporate governance in East Asia.

Secondly, the specificity is another reason to be considered. Most previous similar studies are conducted based on country level. However, in this study, the situation is relatively more special. The corporate governance comparison is based on region level. The quits independent economies (Hong Kong and the Mainland) within one sovereignty country (China) are chosen as comparative targets instead of independent countries. Such situation is very unusual compared to other selected targets in previous studies, which makes this study unique and meaningful.

We can learn from this study by comparing the differences and similarities of corporate governance system between Mainland China and Hong Kong not only at region level but also at company level as well. Country (region) factors can play a key role in setting the legal framework for corporate governance practice. Effective regulatory framework on corporate governance contributes to the promotion of efficient markets. By conducting the region level comparison we can learn how legal and regulatory frameworks provide protection to investors, and how the macro environment affect investor's investment decision making. To set the Principles as a benchmark, we will know which region's legislations are more in line with the Principles. For investors, it is vital to recognize the perceived quality of the governance systems at the country level, but also need to examine the quality of corporate governance practices at the company level (Cornelius, 2004). By selecting four sample listed companies in respective regions, we can examine whether the

⁶ Governance Metrics International Country Rankings, 2006

⁷ Governance Metrics International Country Rankings, 2010, available: <http://www.gmiratings.com/>, [accessed on 31th August, 2010]

legislations are efficiently followed and enforced in the selected sample companies in both regions based on information disclosed in annual reports and websites of selected sample companies. Do the differences and similarities found at country level differ more or less than those at company level in these two regions?

I will contribute to this study by focusing on three dimensions (ownership structure, board composition and effectiveness, and shareholder protection). The reason why I choose these dimensions is because of their particular significances and values for the study.

Finally, Hong Kong is the society that keeps very well legacy of traditional Chinese culture, even better than the Mainland. For example, *Guanxi* (interpersonal relationship), which is the core element of Chinese business culture, is regarded as a very important factor affecting corporate governance in the both regions (Wang, 2007). Through this study, we can learn how the Chinese culture affects corporate governance in both regions. Political factor should be also taken into account to the comparison of corporate governance systems as completely different political systems are adopted in both regions. The Mainland adopts the socialism while capitalism was still kept after 1997 in Hong Kong. However, cultural factor, political factor, etc, are not the core discussions for this study.

A lot of thesis studies have tried to draw new concepts and theories from their researches. However, instead of creating new concepts and theories, this paper emphasizes more on using existing concepts and theories to see how they can explain empirical findings, and draw conclusions based on them.

1.3 Research Purpose

The purpose of this study is to compare similarities and differences of corporate governance between the Mainland and Hong Kong based on region and company level, by using S&P's ranking model GAMMA as a main reference for model construction, and setting the Principles as a benchmark against regional legislations. We can see which region's legislations are closer to the Principles, and which region's sample selected companies are more complied with the regional legislations. Finally

the conclusion based on them can be drawn for investors, so that more precise and rational investment decisions could be made, especially in the concerned regions.

1.4 Delimitation

In order to draw a deeper understanding on corporate governance within limited time, only three crucial dimensions are discussed in this paper, which are ownership structure, board composition and effectiveness, and shareholder protection. Other dimensions such as information disclosure and director remuneration are forced to be excluded due to time limit.

For the same reason, only a limited number of listed companies that fits all the predefined requirements are carefully selected as the sample companies examined at the company level.

1.5 Thesis Outline

After providing a theoretical background and further presenting the research question, purpose and delimitation, the rest part of this paper is organized as follow:

Chapter 2 provides theoretical framework of two corporate governance systems which most affect the target regions studied in this paper, with the purpose to offer the readers better understanding. Later, overall introductions about the legal framework in both regions are presented as well.

Chapter 3 explains the research methodology used in this paper, together with the data collection, which are the foundation of conducting the follow analysis.

Chapter 4 provides detailed description of the research model construction. Specific variables corresponding to three examined dimensions (ownership structure, board composition and effectiveness, and shareholder protection) both at region level and company level are presented.

Chapter 5 presents the empirical results of collected data related to each dimension, including the differences and similarities observed in both sides.

Chapter 6 extends the research in previous section by conducting a comparative analysis on the results for each dimension, both at country level and company level respectively.

Chapter 7 provides an intensive summary for all analytical conclusions, and recommendations for future researches.

Chapter 2 Theoretical and Empirical Framework

In this Chapter, Anglo Saxon and Germanic corporate governance systems will be presented that are regarded to highly influence the regional corporate governance system of Mainland China and Hong Kong. The respective regional corporate governance systems followed will also be presented in order to understand the previous and current development of corporate governance system in both regions.

2.1 Theoretical Framework

The taxonomy of systems of corporate governance in the world is basically categorized as larger models of systems mainly market oriented system and network oriented system. The country class systems adapting the market oriented system are mainly Anglo-Saxon system, Germanic system, while country class systems adapting network oriented system are mainly Latin and Japanese corporate governance systems (Weimar & Pape, 1999; Clarke, 2007). The major theories on corporate governance are agency theory, transaction costs economics theory, stewardship theory, resource dependency theory, stakeholder theory, managerial hegemony theory and class hegemony theory (Clarke, 2007). Each theoretical approach has its own logics and limitations, and though a number of the approaches present opposing interpretations of the same problem, in some cases the theories serve to illuminate different dimensions of the governance problem (Clarke, 2007). Below there is the discussion of two systems that are regarded to have significant influences over Mainland China and Hong Kong.

2.1.1 Anglo Saxon Corporate Governance System

The Anglo Saxon system represented by the United Kingdom and United States of America is also called the market-based system. One of the key characteristics of this system is its decentralized ownership structure, which means that firms in the Anglo Saxon countries are widely held by various shareholders. Especially the financial institutions control the overwhelming majority of blocks. Such dispersed ownership structure can induce the problem of collective actions among shareholders, hence brings down independent shareholders' ability to influence the managerial decision-making process. Since the shareholders are the primary stakeholders, the chief goal of firms in Anglo Saxon countries is therefore maximizing shareholder's interest including minority shareholders, and the system is seriously subject to agency

problem as consequence simultaneously. In order to align the interest between managers and shareholders, the executive compensations are related to the firms' performance, the most prevalent form is stock option. In other word, managers are disciplined via the market. Conyon and Murphy (2000) report that stock options took up a great part of the managerial remuneration in US firms, and the percentage increased along with the firm size. Moreover, they find that such remuneration as an important part of the managerial compensation keep growing both in the US and the UK.

One-tier board system is another key characteristic of the Anglo Saxon system. Executive and supervisory responsibilities of the board under this system are integrated into single board of director. Both the executive directors and non-executive directors are board members and the role of chairman and chief executive officer (CEO) is separated. The board has full control over executive management in order to monitor the managers and protect shareholders' interest. Boone etc al. (2007) find that the fraction of independent outside directors is negatively related to degree of CEO's influence while positively related to constraints on CEOs influence. The board members are nominated and dismissed by the general assembly of shareholders (Weimer and Pape, 1999).

Last but not least, it is considered that the law in Anglo Saxon countries strongly protects the rights of shareholders. The democratic principle of "one share, one vote" is widely applied (Weimer and Pape, 1999). Franks and Mayer (1990) argue that equal access to information and protection of minority investors are regarded as central to the promotion of capital markets.

2.1.2 Germanic Corporate Governance System

The Germanic system is another important corporate governance system that especially dominates in the European continent. It is widely applied in Germany, the Netherlands, Austria, Switzerland and the Scandinavian countries etc (Clarke, 2007). Contrary to the Anglo Saxon system, the ownership structure is highly concentrated in the Germanic countries. A few big shareholders control a firm's majority shareholding, which results in conflict of interest between majority shareholders and

minority shareholders. Wealthy individuals and families are the primary shareholders, while the non financial institutions and banks play the secondary part in the shareholder identity. Germanic system is recognized as stakeholder-based system, for the main concern about interest maximization is not only focus on shareholder, but all related stakeholders including employees, shareholders, suppliers and customers etc (Manjon et al., 2008). Such system is also characterized as bank-based system, not only due to the large proportion of shareholding for banks which indicates the reliability on external finance of firms in Germanic countries, but also for the significant monitoring function of the large shareholders and banks displayed. Manjon et al. (2008) find that such monitoring exerted by large shareholders complements the partial corporate control via market. In contrast to the Anglo Saxon countries, Germanic countries adopt a two-tier board system. The board comprises a lower tier board called the management board, together with an upper tier board called the supervisory board. Compared to the one-tier board, the “board” used in two-tier board refers to the “supervisory board” while the “key executives” refers to the “management board”. The board members of the management board are constituted by executive directors. The supervisory board consists of non-executive directors who are representatives of different stakeholders, with co-determination between employees and shareholders of the decision-making process on the supervisory board (Clarke, 2007). These two boards are independent from each other, and the accountabilities of management are completely separated. The management board responses for daily business while the supervisory board existed for control purpose. Supervisory board has limited ability to appoint or dismiss the management board. The role of chairman and chief executive officer (CEO) is also separated as what is observed in Anglo Saxon countries. The difference is that the CEO takes in charge the management board whereas the chairman responses for the supervisory board.

Compared with Anglo Saxon countries, the level of shareholder protection is much weaker in Germanic countries. The principle of “one share, one vote” is no longer adapted here. Non-voting shares are allowed to be issued up to the amount of all stock issued, which can result in the constraint on shareholders’ voting rights (Kruk & Nilsson, 2006). The brief summary of Anglo Saxon and German corporate governance systems is illustrated on Table 2.1.

Table 2.1 Overview of Anglo Saxon system and Germanic system

Dimensions	Anglo-Saxon system	Germanic system
Ownership	Decentralized ownership	Concentrated ownership
Structure	Financial institutions control the majority of blocks	Wealthy individuals and families as primary shareholders
	Agency problem	Conflict of interest between majority and minority shareholders
Board Composition and Effectiveness	One-tier board	Two-tier board
Shareholder Protection	“One share, one vote” applied	“One share, one vote” not applied
	Strong shareholder protection	Weak shareholder protection

2.2 Empirical Framework

Due to historical reasons, Hong Kong and Mainland China have different legislations, which are influenced by Anglo Saxon system and Germanic system respectively. The legal documents especially relevant to the study in this paper are presented below.

2.2.1 Corporate Governance System in Mainland China

In last thirty years, Mainland China reformed its highly centralized planed economy mechanism, the market economy was formed in 1994. Mainland China gradually opened its domestic market for the foreign investment, and cultivated growth of private enterprises. Even quantity of private enterprise in Mainland China has significantly grew, the state owned enterprises still dominate the country's economy, especially in the critical industries of the country like infrastructure and finance. Mainland China has two stock exchanges: Shenzhen Stock Exchange was founded in 1989, and Shanghai Stock Exchange was founded in 1990. Shanghai Stock Exchange is the major stock exchange compared to Shenzhen Stock Exchange. The major laws related to corporate governance are Company Law and Securities Law. Company Law was passed in 1999 and it was amended and adopted at the 18th session of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on October 27, 2005. The amended Company Law of the People's Republic

of China was promulgated hereby and went into effect as of January 1, 2006⁸. Securities Law was established at the 6th Meeting of the Standing Committee of the 9th National People's Congress on December 29, 1998, revised at the 18th Meeting of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on October 27⁹. In order to be in conformity with the basic principles of the Company Law, and other relevant laws and regulations, the Code of Corporate Governance for Listed Companies (Code) was issued by China Securities Regulatory Commission (CSRC) and State Economic and Trade Commission (SETC)¹⁰. CSRC is in charge with regulating China's securities and futures markets with an aim to ensure their orderly and legitimate operation¹¹. SETC is a macro-economic regulatory department, with a mandate to regulate the near-term operations of the national economy¹². The purpose of the Code is to promote the establishment and improvement of modern enterprise system by listed companies, to standardize the operation of listed companies and to bring forward the healthy development of the securities market.¹³ The Code is the major measuring standard for evaluating whether a listed company has a good corporate governance structure, and if major problems exist with the corporate governance structure of a listed company, the securities supervision and regulation authorities may instruct the company to make corrections in accordance with the Code¹⁴.

Ownerships of Mainland companies are highly centralized due to strong influence of the Germanic corporate governance system. A large part of the listed companies are state-owned companies, which are mainly controlled by the government. Information regarding the name list of the top 10 shareholders who hold the largest blocks of shares in the company as well as the amount of shares as held thereby in the listed companies should be reflected in the annual report, which is submitted to the securities regulatory authority under the State Council and the stock exchange for

⁸ Company Law of Mainland China ,available: <http://wzj.saic.gov.cn/pub/ShowContent.asp?CH=ZCFG&ID=213&myRandom=.174839104> , [accessed on 27th of July,2010]

⁹ Securities Law of Mainland China, available: <http://www.lawbridge.net/english/LAW/20064/0221215892832.html>, [accessed on 27th of July, 2010]

¹⁰ Code of Corporate Governance for Listed Companies in Mainland China,p1,2001

¹¹ CSRC, available: http://www.csrc.gov.cn/pub/csrc_en/about/ , [accessed on 27th of July, 2010]

¹² SETC ,available: http://www.chinacp.org.cn/eng/cporg/cporg_setc.html , [accessed on 27th of July, 2010]

¹³ Ibid

¹⁴ Code of Corporate Governance of Mainland China ,p 1, 2001

record and public disclosure.¹⁵ Relevant information about the increase or decrease on shareholding of controlling shareholders, pledging of the company's shares, or transfer of the company's actual control should be timely and accurately disclosed to all shareholders by the company and its controlling shareholders.¹⁶

Just as what is observed in Germanic corporate governance system, the Mainland listed firms (so called joint stock companies) have two-tier boards including supervisory boards comprised by non-executive members and management boards comprised by executive members. In Mainland, the term of CEO is not used in law instead of being called chairman who presides over board of directors and there is another chairman who presides over the board of supervisors, which is in a similar situation like EU countries. The management board should contain from 5 to 19 members¹⁷, while the supervisory board should have 3 members at minimum¹⁸. The board of supervisors shall include representatives of relative stakeholders, especially the firm's employees at an appropriate percentage which accounts for not less than 1/3 of all the board members.¹⁹ Independent directors are introduced into the board of directors with the purpose to protect minority shareholders' interest.²⁰ Detailed information concerning the candidates for directorship shall be disclosed before the shareholders' meeting to ensure sufficient understanding about the candidates by the shareholders at the time of voting.²¹ To speak of the directorship candidates, there are some restrictions on the qualification. Both the chairmen of the management board and supervisory board should be elected by at least half of the board members respectively.²² The term of office of every supervisor is 3 years, and the term of office could be extended once reelection.²³ At least two board meetings of the board of directors should be held every year,²⁴ and the meeting is announced to be held only when more than half of the directors are present.²⁵ If any director is unable to attend the meeting for a certain reason, it is possible to authorize another director to attend

¹⁵ Securities Law of Mainland China, Article 66.

¹⁶ Code of Corporate Governance of Mainland China p10, NO.94

¹⁷ The Company Law of Mainland China, Article 109

¹⁸ Ibid, Article 118

¹⁹ Ibid, Article 118

²⁰ Code of Corporate Governance in Mainland China p6, NO.50

²¹ Ibid,p4, NO.29

²² The company law of Mainland China, Article 110 and Article 118

²³ Ibid, Article 53

²⁴ Ibid, Article 111

²⁵ Ibid, Article 112

the meeting on his behalf by issuing a written power of attorney.²⁶ Any resolution made by the board of directors shall be adopted by more than half of all the board members.²⁷ Committees such audit committee, nomination committee, remuneration and appraisal committee etc. should be established by the board of directors in accordance with the resolutions of the shareholders' meetings. All committees shall be composed solely of directors. The audit committee, the nomination committee and the remuneration and appraisal committee shall be largely composed by independent directors, and chaired by one of the independent directors. Moreover, at least one independent director being the member of the audit committee shall be an accounting professional.²⁸ The audit committee is requested to give recommendations on the engagement or replacement of the firm's external auditors, and review the firm's internal audit system and its execution. Furthermore, the audit committee also responses for the inspection of the firm's financial information and its disclosure.²⁹ All proposals proposed by each specialized committee shall be submitted to the board of directors for review and approval.³⁰

Minority shareholder's rights are concerned at some extent in Mainland China. Firms in Mainland China support one share one vote principle. Listed companies having more than 30% shares held by controlling shareholders are asked to adopt a cumulative voting system in order to reflect the opinions of minority shareholders and limit the controlling power of large shareholders³¹. Shareholders are encouraged to attend the general meeting in person or by authorizing a proxy to attend. Shareholders also enjoy the right to call for extraordinary meetings under certain requirements.

2.2.2 Corporate Governance System in Hong Kong

Hong Kong used to be colony of United Kingdom since 1840, and returned back to China in 1997. Hong Kong is one of four Asian Tigers after World War Two. Since the historical tight connection with the UK, Hong Kong adopts the corporate governance system highly similar to British corporate governance system. The stock exchange in Hong Kong was originally founded in 1891, is currently one of the

²⁶ Ibid, Article 113

²⁷ Ibid, Article 112

²⁸ Code of Corporate Governance in Mainland China p4, NO.52

²⁹ Code of Corporate Governance in Mainland China p4, NO.54

³⁰ Code of Corporate Governance in Mainland China p4, NO.58

³¹ Code of Corporate Governance in Mainland China p4, NO.31

world's largest exchange owners based on the market capitalization of its shares³². The legislations regarding corporate governance are mainly Companies Ordinance, the Securities and Futures Ordinance. Companies Ordinance was established in 1932, and it was amended in 1997, and 2004, while Securities and Futures Ordinance was established in 2004. The current most important corporate governance development in Hong Kong was the Code of Corporate Governance in Hong Kong (Code) that was established in 2004 by Hong Kong Exchanges and Clearing Limited (HKEx), being the critical document of Listing Requirement. HKEx's role is to be the operator and frontline regulator of the central securities and derivatives marketplace in Hong Kong³³. The Code of corporate governance is one part of corporate governance rules in Hong Kong including Companies Ordinance, Securities and Futures Ordinance, and Stock Exchange Listing Requirement. The Code is considered as good corporate governance, the issuers are expected to comply with the Code, and give considered reasons for any deviation³⁴.

Family-owned firms are widely existed in Hong Kong. Information about the interests and dealings in shareholdings of the directors of listed companies is required to be disclosed to Stock Exchange Hong Kong (SEHK). Even the relative shareholding information of the director's spouse, children under 18 and controlling companies are required for disclosure.³⁵

Firms in Hong Kong only have a board of directors as the Anglo Saxon countries, the responsibilities of the management of the board and daily business are clearly divided to ensure the balance of power and authority.³⁶ The identity of the chairman and the Chief Executive Officer (CEO), even the nature of any financial, business or family relationship of these roles are required to be disclosed.³⁷ The board should include at least 3 independent non-executive directors to make sure effective exercise of independent judgment.³⁸ Non-executive directors have the same duties as executive

³² HKEx, available: <http://www.hkex.com.hk/eng/exchange/exchange.htm>, [accessed on 27th July, 2010]

³³ HKEx, Company Profile, available: <http://www.hkex.com.hk/eng/exchange/corpinfo/profile.htm>, [accessed on 27th July, 2010]

³⁴ Code of Corporate Governance in Hong Kong, p1,2004

³⁵ Securities and Futures Ordinance in Hong Kong, Section 341

³⁶ Code of Corporate Governance in Hong Kong, p4, A.2

³⁷ Ibid.

³⁸ Code of Corporate Governance in Hong Kong, p5, A.3

directors given the unitary nature of the board,³⁹ and also serve as a member in the audit, remuneration, nomination and other governance committees if invited.⁴⁰ Information about all directors submitted for election or re-election include their directorships held in other listed public companies in the past 3 years and other major appointments are required to be disclosed to shareholders.⁴¹ To be qualified, every director is required to hold a specified share qualification, otherwise is subject to obtain such qualification within 2 months after appointment.⁴² All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director is asked for retirement by rotation at least once every three years and subject to re-election.⁴³ The board should hold meetings regularly and at least 4 times or quarterly a year. The majority of directors entitled are expected to be present either in person or through other electronic means of communication.⁴⁴ The chairman is required to at least hold annual meetings with the non-executive directors without the executive directors present.⁴⁵ If a large shareholder or a director finds serious interest conflict in a matter to be considered by the board, a board meeting should be held under the attendance of independent non-executive directors who, and whose associates, have no material interest in the transaction.⁴⁶

Several specialized committees are established with specific terms of reference explaining their authority and duties given by the board. The remuneration committee should be mostly comprised by independent non-executive directors.⁴⁷ The remuneration committee should consult the chairman and/or CEO even professional advice if necessary about their proposals relating to the remuneration of other executive directors.⁴⁸ No director should be involved in deciding his own remuneration.⁴⁹ Moreover, directors who acquire any remuneration due to his directorship or interest in any other stakes related company normally are not

³⁹ Code of Corporate Governance in Hong Kong, p8, A.5

⁴⁰ Ibid.

⁴¹ Code of Corporate Governance in Hong Kong, p6, A.4.2

⁴² Hong Kong Companies Ordinance, p196, NO. 155

⁴³ Ibid.

⁴⁴ Code of Corporate Governance in Hong Kong, p3, A.1.1

⁴⁵ Code of Corporate Governance in Hong Kong, p5, A.2.7

⁴⁶ Code of Corporate Governance in Hong Kong, p3, A.1.8

⁴⁷ Code of Corporate Governance in Hong Kong, p12, B.1.1

⁴⁸ Code of Corporate Governance in Hong Kong, p12, B.1.2

⁴⁹ Code of Corporate Governance in Hong Kong, p12, B.1

accountable to the company they work.⁵⁰ For the audit committee, a former partner of the issuer's existing auditing firm should not act as a member of the issuer's audit committee within 1 year since the date it is no longer a partner of the firm or have any financial interest in the firm.⁵¹ Audit committee is responsible for the review of financial information of the issuer, so a committee is required to meet with issuer's auditors at least once a year.⁵² All the board committees are required to report their decisions or recommendations back to the board, unless there are legal or regulatory restrictions prohibiting them to do so.⁵³

In order to protect minority shareholders, board independence is emphasized to avoid great influence from majority shareholders. Shareholders have the right to vote in the meeting, even through proxy voting. Minority shareholders are also allowed to raise objection if they have sufficient reasons to prove the violation of their rights. The interest of minority shareholders are also protected in connected transactions. Minority shareholders of parent company are entitled to acquire any offering of existing or new shares in new company by ways of distribution or preferred application.

⁵⁰ Hong Kong Companies Ordinance, p375, NO. 80

⁵¹ Code of Corporate Governance in Hong Kong, p19, C.3.2

⁵² Code of Corporate Governance in Hong Kong, p19, C.3.3

⁵³ Code of Corporate Governance in Hong Kong, p25, D.2.2

Chapter 3 Methodology

In this chapter, the methodology used to conduct the research and selection of research companies will be presented. The chapter follows: selection of methodology, approach of data collection, and research companies.

3.1 Research Methodology

As mentioned earlier, the aim of the study is to compare the corporate governance systems concentrating on ownership structure, board composition and effectiveness, and shareholder protection of the selected economies between the Mainland and Hong Kong, and the selected listed firms in each region. It is possible to use either qualitative or quantitative research approach for this essay. Most similar studies use the quantitative research approach, like the thesis works of Kruk & Nilson (2006) and Zhou & Panbunyuen(2008). Quantitative approach is used for counting and measuring things, producing in particular estimates of averages and differences between groups,⁵⁴ by using highly structured methods such as questionnaires, surveys, etc.⁵⁵. According to Greenhalgh & Taylor (1997): quantitative research should begin with an idea (usually articulated as a hypothesis), which then, through measurement, generates data and, by deduction, allows a conclusion to be drawn; qualitative research, in contrast, begins with an intention to explore a particular area, collects "data" (observations and interviews), and generates ideas and hypotheses from these data largely through what is known as inductive reasoning; the general framework of qualitative research approach tries to explore phenomena instead of trying to confirm hypotheses about phenomena.⁵⁶ They find that the strength of the quantitative approach lies in its reliability (repeatability): the same measurements should yield the same results time after time, which might be the weakness of qualitative approach. Qualitative approach is also weak at drawing verified conclusion which should be well applied by quantitative approach. Greenhalgh & Taylor (1997) further find that strength of qualitative research lies in validity (closeness to the truth): good qualitative research, using a selection of data collection methods, really should touch the core of what is going on rather than just skimming the surface. The strength of qualitative research allows the studied subjects to give much 'richer' answers to questions put to them by the researcher, and may give valuable insights which might have been missed

⁵⁴ Peninsula Research & Development Support Unit, Qualitative Research Methods,p1

⁵⁵ Family Health International, Qualitative Research Methods: A Data Collector's Field Guide,p3

⁵⁶, Family Health International(FHI),Qualitative Research Methods: A Data Collector's Field Guide,p3

by any other method⁵⁷. To sum up, we can see that quantitative approach is not suitable for this study, since it can constrain in-depth study that is the purpose of this essay.

In order to build the research model and analyze the data results, extensive literature review approach is applied. Internet search is also used because of the availability of abundant resources on the internet.

3.2 Approach of Data Collection

According to Greenhalgh & Taylor (1997), the examples of qualitative research approaches can be: documents—study of documentary accounts of events; in-depth interviews—face to face conversation with the purpose of exploring issues or topics in detail. It does not use preset questions, but is shaped by a defined set of topics; focus groups—method of group interview which explicitly includes and uses the group interaction to generate data, etc. The approaches like interview, survey, etc, are not suitable for this study since first hand information from them is required. It is difficult to acquire such information due to time and resource limitation.

The primary sources of data for this study are official documents of private and governmental kind: mainly the Company Law and Codes of Corporate Governance in Mainland China; Companies Ordinance and Codes of Corporate Governance in Hong Kong; and annual reports of sample companies. A Shares Listing Requirement and Security Law in Mainland China; Hong Kong Main Board Listing Requirements and A Guide for the Effective Board⁵⁸ in Hong Kong; and the websites of selected sample companies are also used sometimes. Hereby, I adopt the documentary research approach for data gathering.

The merit of the documentary research approach is that the data for study are documents of governmental departments, national laws and annual reports. Those documents provide access for anyone. They have been certified by the government directed institutions and auditing firms. Those data are not affected by personal values and preconceptions of researchers. However, the documentary research approach also

⁵⁷ Peninsula Research & Development Support Unit(RDSU), Qualitative Research Methods, p1

⁵⁸Charltons: A Guide for the Effective Board ,available: <http://www.charltonslaw.com/en/index.htm> , [accessed on 26th July,2010]

has some weaknesses: there are too many public documents available online, each document is related to each other but also remain their own differences, which makes this approach time-consuming. More seriously, many laws have been revised, the latest versions of laws are difficult to find and it also consumes a lot of time. Finally, for the same variable, there might be several laws having provisions in line with it, which makes this study difficult to conduct. The solution for this problem is trying to target at the most important legislations, like company law for example. The less important ones have to be disregarded due to time limit.

3.3 Research Companies

This pilot study focuses on listed companies (in Mainland China, it is officially called jointed stock limited companies), since they are best representatives in corporate governance among all kinds of companies. Four sample listed companies in each independent economy are chosen. In Mainland China, the sample companies are chosen from companies with highest market capitalizations from different industry sectors on domestic stock exchanges in Shanghai and Shenzhen. The Mainland Chinese companies issuing H shares in Hong Kong and other kind of shares overseas are disregarded, since they will be affected by the Hong Kong or oversea legislations. Such as, Sinopec Corp that lists in Shanghai, Hong Kong, and New York is disregarded due to the fact that the Hong Kong and U.S. legislations might affect its own corporate governance structure. No company from same industry sector is chosen due to the consideration that they might have similar corporate governance structure. Therefore, four listed companies having highest market capitalizations on domestic stock exchanges are Baosteel, Minmetals, Saic Motor, and CIMC⁵⁹. The state owned enterprises are also considered since almost all top 100 listed companies in Mainland China are state owned companies.

In Hong Kong, no Mainland's firms issuing H shares on Hong Kong Stock Exchange is considered due to the similar consideration that they might not best representatives of corporate governance among Hong Kong listed firms. Therefore, four Hong Kong listed firms with highest turnovers on Hong Kong stock exchanges are selected, which are Hutchison Whampoa, Cathay Pacific Group, Sun Hung Kai, and CLP holding

⁵⁹ Top 100 listed companies in Mainland China, available: http://www.fortunechina.com/rankings/c/2009-07/13/content_27477.htm, [accessed on 26th July, 2010]

respectively.⁶⁰ Additionally, no financial sector representatives are considered as the financial institutions are supervised by state banks in respective economies, and are complied with different law other than Company Law.

To sum up, the sample companies for Mainland China are as follows:

Table 3.3.1 Sample companies of Mainland China

Mainland China		
Ranking	Sector	Company
1	Metal	Baosteel Ltd
2	Wholesale and Retail	Minmetals Ltd
3	Vehicle Construction	Saic Moter Ltd
4	Equipment Construction	CIMC Ltd

The sample companies for Hong Kong are as follows:

Table 3.3.2 Sample companies of Hong Kong

Hong Kong		
Ranking	Sector	Company
1	Conglomerates	Hutchison Whampoa Ltd
2	Electric Power	CLP Holding Ltd
3	Property	Sun Hung Kai Ltd
4	Airlines Transportation	Cathay Pacific Group Ltd

⁶⁰ The Global 2000, available: http://www.forbes.com/lists/2009/18/global-09_The-Global-2000_Rank_7.html ,[accessed on 26th July,2010]

Chapter 4 Research Model

The real research model will be constructed in this chapter. The significance of three selected dimensions with sub-variables will be presented. Finally country and company level matrix of research model will be formed.

4.1 Research Model Construction

Lots of studies have conducted on comparison between different corporate governance systems. Most of them are only based on country level comparison, like Zhang (2003), Gregory & Andreas (2005), and Zeng (2006), whereas there are also some studies based on country level and company level, i.e. Cheema, Johansson and Mir (2009). This study chooses to follow Cheema et al's study, since it brings both legal and practical senses to investors.

The corporate governance dimension construction is a theme about how to set the key variables in this comparative study on corporate governance between Hong Kong and the Mainland, hence, is critical part for this particular study, therefore rating schemes of corporate governance rating institutions will be referenced as they are professional analytical tools for providing professional opinions and suggestions on the dimension construction.

Based on the need that both country level (macro level) and company level (micro level) are required to be analyzed in this study, most rating institutions, like Governance Metric International's (GMI)⁶¹ or Institutional Shareholder Services (ISS)⁶² fail to meet this requirement as they only provide rankings of companies on corporate governance across countries based on only company level (micro level) except Standard & Poor's (S&P) which provides analytical methodology at both levels. Thereafter, S&P will be mainly referenced on the corporate governance dimension setting for this study. S&P's GAMMA rating model is hence briefly introduced below:

⁶¹ Governance Metrics (GMI): International Pioneering Accountability Ratings, available: [http://www.gmiratings.com/\(4kn3ze453rlenbv0ivilb3ae\)/Products.aspx#top](http://www.gmiratings.com/(4kn3ze453rlenbv0ivilb3ae)/Products.aspx#top), [accessed on 17th September, 2010]

⁶² ISS's Corporate Governance Quotient (CGQ), available: <http://www.riskmetrics.com/cgq>, [accessed on 17th Sep, 2010]

S&P is the most famous financial research and analysis provider all around the world, which develops an analytical methodology to corporate governance benchmark focusing on the emerging markets after Asian financial crisis. Such methodology later evolves to the present corporate governance analytical service called “Governance, Management, Accountability Metrics and Analysis” (“GAMMA” for short)⁶³, which can be applied generally in many countries around the world where different general approaches to corporate governance may exist. GAMMA scoring service helps to reflect the effectiveness of a company’s governance practices as an investor protection against potential governance-related failure to value creation.⁶⁴ S&P provides corporate governance analysis from a financial perspective not only at the individual company level, but also at the country/region level. The analysis conducted at macro level reflects which individual country/region environments are conducive to good governance practices. At micro level the analysis attempts to assess the effectiveness of individual company governance practices as a system of interaction among a company’s management, board, shareholders, and other stakeholders aimed at building company value and ensuring fair distribution of its earnings. The analysis conducted at micro level reflects company’s degree of adherence to externally imposed corporate governance standards.⁶⁵ Macroscopically, four key dimensions of country/region are addressed, which are legal infrastructure, regulatory infrastructure, informational infrastructure and market infrastructure respectively.⁶⁶ At microscope, the analysis generally focuses on firm’s ownership structure, shareholder rights, transparency, audit and enterprise risk management, board effectiveness, strategic process, and compensation practices⁶⁷. This paper tries to conduct a comparative study on the corporate governance system in Mainland China and Hong Kong S.A.R by applying the S&P analytical methodology incompletely based on region level and firm level.

The GAMMA model is referenced to build the dimension construction at country level. An effective legal environment is a critical indicator of good corporate

⁶³ Standard and Poor’s Criteria and Definitions: (GAMMA) Governance, Accountability, Management Metrics & Analysis, available: http://www2.standardandpoors.com/spf/pdf/equity/GAMMA_Criteria_3.pdf, [accessed on 27th July, 2010].

⁶⁴ Ibid.

⁶⁵ Ibid.

⁶⁶ Ibid.

⁶⁷ Ibid.

governance. A country/region providing better legal shareholder protection can prevent shareholder's right from abuse and infringement.⁶⁸ The legal and regulatory frameworks have interdependent relationship on their effective functioning. Well defined laws can provide effective guideline for regulation, while well defined laws correspondingly need effective regulatory enforcement to realize it. They together play an important role in deciding the overall corporate governance effectiveness. Company law (or ordinances) and the codes are major documents to be examined for regional corporate legal infrastructure in this paper since they are most relevant legal documents covered all the fundamental issues from company construction, equity issue, board responsibilities to shareholder rights etc. The extent of the regional regulatory infrastructure is examined by checking firm's degree of adherence in term of legal requirements.

Besides, the degree of capital market as a functional mechanism for corporate control exhibits great influence towards a country's overall corporate governance environment. Effective public information disclosure ensures financial stakeholders' ability to monitor a firm's performance. However, to explore the extent to the national/regional market and information infrastructures require comprehensive and quantitative real time surveys on relevant aspects, which is not feasible in this paper due to time and resource limitation. Moreover, legal and regulatory infrastructure can be viewed as non-financial elements of corporate governance analysis, while market and information infrastructure is considered as financial factors which emphasize more on financial and accounting issues. In this paper, more attention is placed on the non-financial aspects of corporate governance, which are more applicable in intensive and qualitative research. Base on those reasons, the analysis on these two dimensions (market and information infrastructures) is therefore disregarded in this paper.

For the company level dimension setting, S&P's GAMMA model is still the main reference. The ranking models from other rating institutions are also referenced, since they also provide corporate governance ranking based on this level. I try to reconcile those ratings into the place that fits this particular study. Ownership structure, board composition and effectiveness, and shareholder protection are hence selected as the

⁶⁸ Ibid.

focal dimensions of corporate governance analysis at company level. I modified the dimension of ownership structure in order to assess the highly ownership concentrated firms from both regions. The other dimensions have to be disregarded due to time limitation and the need of first hand information from interviews and surveys, such as strategic process, is hard to get the data from company's annual reports or websites , and might need to conduct interviews and surveys with the sampled companies, so that is forced to abandon.

Last but not least, the OECD also plays a determinant role in this paper, since it has been at a forefront for issuing global corporate governance best practices (Cheema, Johansson and Mir, 2009). Its published document *OECD Principles of Corporate Governance (2004) (Principles)* is publicly known to be the international benchmark for effective corporate governance, providing specific guidance for legislative and regulatory initiatives in both OECD and non-OECD countries.⁶⁹ The Principles are applied as a benchmark against respective regional legislations to draw a judgment.

The significance of three dimensions is discussed below:

4.1.1 Ownership Structure

Company ownership structure refers to the construction of company shareholders including types of shareholders, types of shares held by different shareholders, extent of ownership concentration or dispersion, shareholder's stabilities, executive's shareholdings, etc. For most listed companies, shareholders refer to individuals, non-financial enterprises, non-banking financial institutions, governments, foreign investors, ordinary staffs and executives. Ownership structure is an important dimension of corporate governance. First of all, ownership structure can influence company value and performance. Jensen and Mechling (1976) make the early research in the relationship between internal shareholding of shareholder and corporate performance. They classify shareholders as inside and outside shareholders, and consider that the company's value is dependent on the proportion of shareholdings held by inside shareholders. The bigger proportion they hold, the higher value the company has. An increase of proportion of shareholdings held by inside

⁶⁹ OECD Principles of Corporate Governance, 2004, p3

shareholders makes convergence of interest to outside shareholders, which is called the interest convergence effect. In the situation of diversified ownership, the firm value decreases when management's requirement on ownership decreases along with manager's motivation on innovation declines. Stulz (1988) finds the existence of curved line relationship between firm value and shareholding proportions held by insider shareholders: firstly an increase of shareholding proportion held by managers contributes to an increase of the value to the firms. To the contrast, firm value reduces due to continuous increase of manager's shareholdings. He also finds that with an increase of inside shareholdings, the chances of takeover by other firms due to bad operation declines, which raises the motivation of shareholders on supervision, but at the same time harms the sufficient operation of regulatory market mechanism of the company at the same time.

Secondly, some Western scholars find that ownership concentration is positively associated with good firm performance. Levy et al. (1983) do the research on American firms, and find that the firm stock price is positively correlative to ownership concentration. Zeckhouser & Pound (1990) find that in the industry where is easy to be supervise, the firm's stock price and surplus ratio are positively correlated to ownership concentration. Claessens(1997) does research on listed firms in Czech and he finds that ownership concentration and profitability are positively correlated. Perderson & Thomsen (2001) investigate 435 big firms in 12 European countries and find that ownership concentration is positively correlated to ROE ratio.

To sum up, we can conclude that the ownership structure plays very important role on corporate governance. Due to the fact that ownership concentration is prevailing in Hong Kong and the Mainland, I will choose variables like director shareholding and top ten shareholders' shareholding to examine ownership concentration in both regions. By looking at director shareholding we can see how inside shareholder's shareholding can affect the company performance. To look at top ten shareholders' shareholding we can see which region has higher degree of ownership concentration. For detailed list of selected variables for the dimension, see Table 4.2

4.1.2 Board Composition and Effectiveness

Board represents as the shareholders' agent in charge of running the company and handles major decisions and delegates responsibility for everything else to corporate officers (Kim, Nofsinger, and Mohr, 2010). Stiles & Taylor (2001) *find that board is the link between the shareholders of the firm and the managers entrusted with conducting the day-to-day operations of the organization*. The key roles of the board are: monitoring the management of the company and ensuring accountability; providing professional advice and counsel to the company executives on important issues; approving and supervising the strategic direction of the company; and finally building institutional relationships with investors, community and stakeholders (Clarke, 2007). Kim, Nofsinger, and Mohr (2010) present the similar views: the board is charged with five board functions: to hire, evaluate, and fire top management, with the position of CEO being the important to consider; to vote on major operating proposals; to vote on major financial decisions; to offer expert advice to management; and to make sure the firm's activities and financial condition are accurately reported to its shareholders. In order to fulfill such function and role, the board composition needs to be efficient and effective.

The variable of separation of chairman and CEO is used in this pilot study, since when the role of CEO and chairman combines and serves by the same person, shareholders will be exposed to very high risk, the separation of board chairman and chief executive officer minimizes the tension between managers and board members and thus positively influences the performance of companies (Coleman & Osei, 2008)

The reason why variables of non-executive directors (term used in the Hong Kong legislations and is called supervisors in the Mainland) and independent non-executive directors (term used in the Hong Kong legislations and is called independent directors in the Mainland) are selected is because non-executive directors have a key role in the system of corporate governance both in supporting the performance of executives and allowing investors and other stakeholders to have confidence in effectively monitoring the performance of executives (Nulty, Roberts, and Stiles, 2005). With addition of non-executive directors, firm value will be increased. On average, non-executive directors are selected in the interests of shareholders (Rosenstein & Wyatt,

1990). Discussing the role of the board in a theory of corporate governance without discussing board composition is as inappropriate as discussing the theory of the firm and ignoring the internal structure of the organization. The proportion of independent non-executive directors appearing on the boards of major business corporations is a potentially important performance variable. In terms of performance effects, firms with higher proportions of independent non-executive directors at the beginning of the decade ended up with superior performance records (Baysinger & Butler, 1985)

Besides the variables discussed above, multiple directorships on other boards, meetings and attendance of directors, board committees, director election procedure are also addressed in the study. For detailed list of selected variables for the dimension, see Table 4.2 at the end of this chapter.

4.1.3 Shareholder Protection

Shareholder rights are an important component of corporate governance. Carrillo (2007) suggests that shareholders and stakeholder interests are compatible and both contribute to corporate long term efficiency and progress. He further argues that the protection of a wider set of interests is considered as an alternative way of efficiently conducting corporate governance

Economists such as La Porta et al. (1997) argues that the legal environment for the protection of minority shareholders and mechanisms for restricting the expropriation of minority shareholders will be important in determining the size and extent of a country's capital markets, as well as an important indicator of a country's ability to attract capital.

Regional legislations provide legal guidance for shareholders rights. Actually, the rights of shareholders enjoyed mainly depend on provisions in a company's charters and by-laws. In other word, the degree of rights shareholders received relies on the level of company's compliance to legal requirements. Issues regarding shareholders' voting rights, right to participate general meetings, and right for proxy voting etc. are the key points on examining the level of shareholder protection in both regions. For

detailed list of selected variables for the dimension, see Table 4.2 at the end of this chapter.

4.2 Region-Level Matrix

Regional level analysis is conducted by figuring out the questions below. The questions are related to three most remarkable dimensions on which it is worth to concentrate between Mainland China and Hong Kong, and the data are gathered in matrix form. Firstly, the regional laws and codes in the Mainland and Hong Kong will be examined across dimensions that relate to investor protection. Secondly, the regional laws and codes will be compared with each other, as well as the Principles, and analysis to the findings will be also conducted. Findings to those questions have been gathered in matrix form presented on Appendix 1.

The variables of each dimension concerned are addressed as follows:

What are relevant legislations prevailing in Mainland China and Hong Kong on corporate governance?

What are legislations related to executive shareholding in the regions of Mainland China and Hong Kong?

What are legislations related to shareholding pattern in two regions?

What are legislations related to board size in two regions?

What are legislations related to director responsibility in two regions?

What are legislations related to director qualification and biography in two regions?

What are legislations related to chairman/CEO at boards in two regions?

What are legislations related to meetings and attendance of board in two regions?

What are legislations related to director's election procedures in two regions?

What are legislations related to board committees in two regions?

What are legislations related to non-executive directors in two regions?

What are legislations related to independent non-executive directors in two regions?

What are legislations related to multiple directorships in other companies?

What are legislations related to minority shareholders' interest in two regions?

What are legislations related to participation and voting in general meetings?

What are legislations related to proxy voting arrangement in two regions?

What are legislations related to calling extraordinary meetings in two regions?

4.3 Company-Level Matrix

Firstly the latest annual report in 2009 and company websites of sample companies in both regions will be researched, and the findings will be compared to laws and guidelines set up by respective regional institutions. Secondly, the findings of regional companies will be compared with each other, as well as the Principles. Furthermore, analysis to the differences will be examined. Finally the qualitative conclusion regarding the differences will be drawn. Findings of those variables relative to each dimension in both regions have been gathered in matrix form presented on Appendix 2 and Appendix 3 respectively.

Table 4.3 Company Level Matrix

Variables	Mainland Companies	Hong Kong Companies
Ownership Structure		
Director/Executive Shareholding		
Top Ten Shareholding		
Breakdown (Categories) of Shareholding		
Board Composition and Effectiveness		
Board Size		
Chairman/ CEO Separation		
Non-Executive Directors		
Independent Non-executive Directors		
Director Responsibility		
Director Qualification and Biography		
Meetings and Attendance of Directors		
Board Committees		
Shareholder protection		
Share structure		
Board representation of minority shareholders		
Request for Extra General Meeting		

Chapter 5 Research Results and Consideration

In this chapter, the key findings from empirical data collection on appendices will be presented here. Firstly the region level results will be presented based on three key dimensions. The company level results will be presented similarly except the difference in which they are presented separately by respective region.

5.1 Results of Region-Level Research

The findings are found on Appendix 1. Here, the regional level results based on three focused dimensions will be illustrated. It will compare the similarities and differences of the chosen dimensions between both regions and OECD Principles, with the purpose to see which region's legislations are closer to the Principles.

5.1.1 Ownership Structure

5.1.1.1 Director/Executive Shareholding

A brief introduction to the directors, supervisors, and senior managers of the listed company as well as the information regarding their shareholdings is required to disclose within 4 months as of the end of every accounting year without clearly requiring a disclosure of shareholding bounds held by directors or executives. In Hong Kong, directors are required to disclose interests and dealings (including those of their spouses, children under 18 and subsidiary companies under their control) in shares or debentures of the company or its associated companies⁷⁰. Major significant events that affect the directors' shareholding are required to disclose to Hong Kong Stock Exchange within 3 working days. About the senior manager shareholding, the number of shares held by senior managers is also encouraged to disclose in the annual report of the companies. Both sides are similar with each other, but Hong Kong provides much more restrictions related to director and executive shareholding, since both directors and their families' shareholdings are required to disclose. There are no provisions for this variable to be found on the Principles.

5.1.1.2 Shareholding Pattern

According to the Principles, the data on major shareholders who control the company

⁷⁰ Appendix 1

through ways such as special voting rights, shareholder agreements, cross shareholdings, and cross guarantees are required to disclose. In Mainland China, changes on the shareholdings of the companies, increase or decrease of the controlling shareholders' shareholdings and information on shares regarding name list of the top 10 shareholders who hold the largest number of shares and their holding amounts shall be disclosed. In Hong Kong, the number of shares held by senior management is required to disclose in the annual report. A person who acquires an interest in shares comprised in the relevant share capital of a listed corporation or ceases to be interested in shares so comprised (whether or not having or retaining an interest in other shares so comprised), or has similar situations is under duty to disclose their shareholdings. To sum up, both sides are in line with the Principles, but Hong Kong is closer to the Principles.

5.1.2 Board Composition and Board Effectiveness

5.1.2.1 Chairman/CEO Separation

Regarding to chairman and CEO separation, the Principles support the separation of CEO and chairman in the single tier boards due to the reason of enhancement on board objectivity and independence. The Principles also do not support the combined role of them in two-tier boards and state that the corporate governance might be problematic if the chairman of management board (MB) becomes the chairman of supervisory board (SB) after he or she retires. According to Company Law of Mainland China, any director and senior manager working at board of directors cannot concurrently serve the post of supervisors, therefore chairmen at both boards cannot be held by the same person. While in Hong Kong where single tier board system is adopted, the legislation is clearly stated that the role of CEO and chairman should be separated. The separation of functions and duties between the chairman and chief executive officer should be clearly established and set out in writing. Both legislations are in conformity with the Principles, but Hong Kong is more distinct compared to the Mainland

5.1.2.2 Board Size

A joint stock limited company in the Mainland shall set up a board of directors, which shall comprise 5 to 19 persons and also shall set up a board of supervisors, which

shall comprise at least 3 persons. No such requirement is found on the Principles and Hong Kong legislation.

5.1.2.3 Non-executive Board Directors

Regarding to non-executive board directors, the Principles encourage to assign a sufficient number of non-executive board members capable of exercising an independent judgment to tasks where there are a potential for conflict of interest, ensuring the integrity of financial and nonfinancial reporting, reviewing related party transactions, nomination of board members and key executives, and board remuneration⁷¹. In Mainland China, there should be at least 3 non-executive members on the supervisory board, and they should be mainly in charge of checking the financial affairs of the company; supervising the duty-related acts of the directors and senior managers; demanding to make rectifications for directors and senior managers if their act has injured the interests of the company; proposing to convene temporary shareholders' meeting; and bringing forward proposals at shareholders' meeting⁷². In Hong Kong, the non-executive directors are mainly in charge of participating in board meetings of the issuer to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; taking the lead where potential conflicts of interests arise; serving on the audit, remuneration, nomination and other governance committees, if invited; scrutinizing the issuer's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance⁷³. In Mainland China, every term of office of non-executive directors is 3 years, and is allowed to be re-elected after the expiry of their term of office, which is also the case in Hong Kong.

To sum up, Mainland China's non-executive directors basically act as internal watchdog over executive directors and managers, and oversee the board of directors and managers to assure that they are comply with state laws and company policies (Wang, 2007), while Hong Kong focuses more on providing independent opinion, and resolving conflict of interest, which is line with the Principles .So Hong Kong is closer to the Principles.

⁷¹ Appendix 1

⁷² Ibid

⁷³ Ibid

5.1.2.4 Independent Non-executive Board Director

The Principles encourage the present of independent non-executive directors on the board, since it states that they contribute significantly to the decision-making, and they should be assigned on the board sufficiently to deal with the problem of conflict of interest, and to protect the minority shareholders' rights. In Mainland China, independent directors shall especially worry about protecting the interests of minority shareholders from being violated. Independent directors shall implement their duties independently and shall not to be influenced by any of the company's major shareholders, stakeholders, or other entities or persons who are interested parties of the firm. Moreover, the legislation advises independent directors to preside over board committees and should constitute the majority on the committees. Independent directors are only allowed to hold position as non-executive directors on listed firms, which are not found on Hong Kong's legislations. In Hong Kong, the legislations are similar to Mainland China, but extend that non-executive directors should attend board meetings, board committee meetings, and shareholder meetings, actively participate matters of them, make positive contribution to the meetings by providing good comments and opinions, and act as equal status like executive directors. Number of independent non-executive directors is recommended to be at least 3 persons and should constitute 1/3 of total members at the board and their status should be identified as such in all corporate communications that disclose the names of directors, where no such requirement can be found in the Mainland. Hong Kong legislation mentions the functions of non-executive directors which are similar to the Mainland, but are much more adequately. To sum up, the Principles just encourage listed firms to introduce independent directors at board. Both sides are completely in the line with the Principles and further extend the Principles. Hong Kong legislation is closer to the Principles.

5.1.2.5 Multiple Directorships

The Principles state that board member should be responsible for the company, but they do not recommend the board members to serve on too many companies since their performance might be impaired. Information regarding the multiple board memberships shall be disclosed to the shareholders, but not specifically set the

limitation of membership with which board members need to comply. The Mainland legislation doesn't mention the multiple directorships, instead only talks about disclosing information regarding single directorship of appointment agreement between the company and the director in the director election process. In Hong Kong, director's other directorships held in listed public companies in the last three years are required to be disclosed in the director election process. So Mainland China legislation is not in line with the Principles, while Hong Kong is basically in conformity with the Principles.

5.1.2.6 Director Qualification and Biography

The Principles require disclosing information regarding director's qualifications, selection process, directorships in other companies, and whether they are regarded as independent by the board. The Mainland discloses the director's background in selection process, the performance and evaluation of directors, the performance and evaluation of independent directors, but doesn't disclose the director's qualifications and directorships in other companies which is important in the eyes of OECD, while Hong Kong does. Mainland China legislation mentions what kind of person shall not serve as director. In Hong Kong, director's qualification is mentioned in detail. To sum up, both sides are in line with the Principles, Hong Kong is again closer than Mainland China.

5.1.2.7 Director Responsibility

Regarding to director responsibility, no provision is found on the Principles. Mainland China and Hong Kong make similar rules. Hong Kong legislation particularly emphasizes the non-executive directors' responsibilities: provide independent judgments on issues of board meetings, resolve potential conflicts of interests, serve on the board committees, oversight issuer's performance and monitor the reporting of performance. Non-executive directors have the same duties of care and skill and fiduciary duties as executive directors⁷⁴. In Mainland China, the responsibilities of executive directors are mentioned. Both executive directors and non-executive directors (supervisors at supervisory boards) are required to attend the shareholder meeting as non-voting delegate, and answer the shareholders' inquiries. To sum up,

⁷⁴ Appendix 1

Hong Kong emphasizes on non-executive director responsibility in legislation while the Mainland emphasizes on executive directors.

5.1.2.8 Meetings and Attendance of Directors

Disclosing individual board members' attendance records is required, in order to enhance director's legitimacy and confidence to shareholders according to the Principles, the Mainland legislation extends it by limiting how many times of board meetings(at least 2 meetings) needed to be held a year, how early directors needed to be informed (10 days), the percentage of attendance required for directors in meetings (more than half of directors within company) , the percentage for passing the resolution (more than half of directors) and finally the other ways of attendance instead of attendance in person. If the directors can't present personally, they should issue a written power of attorney, entrust another director to attend the meeting on his behalf, and the scope of authorization shall be stated in the power of attorney. In Hong Kong, at least 4 meetings a year, normally one meeting a season is required to be held, directors are informed before 14 days. Active participation way can be in person or through electronic means. No bound of percentages regarding attendances or resolutions is found on the legislations. To sum up, both sides are in line with the Principles, but Mainland China seems having more specific provisions than Hong Kong.

5.1.2.9 Director Election Procedure

Three sides state that it is of importance to establish standardized and transparent procedure for director election; it should be fully disclosing the experience and background of candidates for the board and the nomination process for facilitating assessment of the abilities and suitability of each candidate. Also the Principles and Mainland China value the opinion of minority shareholders in the election process and recommend the use of the cumulative voting system which is further emphasizing by Mainland China by stating that listed companies with controlling shareholders who own more than 30 percent shares should adopt such system. However, it is not mentioned by Hong Kong. The Principles emphasize the importance of having the nomination committee to properly comply with the nomination process, to facilitate and coordinate the construction of balanced and qualified board, more importantly the

nomination committee should have independent directors inside who should play important role on the committee. Hong Kong and Mainland China are in line with the Principles and both agree to have majority independent directors held on the committee. Both regions mention that the term of office of directors is 3 years and they are subject to re-election if their term of office is expired. Mainland China extends the Principles by mentioning the independent director election. While Hong Kong further extends the Principles by recommending the term of office (maximum 9 years) of independent non-executive directors that needs to be re-elected if the term of office is expired. To sum up, both Mainland and Hong Kong are in line with the Principles.

5.1.2.10 Board Committees

The Principles focus on audit, remuneration and nomination committees. Both the Mainland legislations and the Principles require establishing board committees like audit committee, remuneration committee and nomination committee, which are of importance to implement resolutions of the shareholders' meetings. But Hong Kong only requires establishing audit committee and remuneration in law, nomination committee is recommended to establish. Three sides are in slight difference by emphasizing on different committees. For example Mainland China requires establishing a corporate strategy committee which is not the case of the Principles who instead require establishing the ethical committee. In Hong Kong, an appropriate board committee is set up for the purpose pursuant to a resolution passed in a board meeting. All the Principles, Mainland China and Hong Kong emphasize the importance of having independent non-executive directors on the boards. The Principles recommend the minimal number of non-executive directors represented on the committees or the committees should be entirely comprised of non-executive members. Mainland China says that audit, nomination, remuneration and appraisal committees should be chaired by independent director who shall constitute the majority on these committees. At least 1 independent director on audit committee should be an accounting professional. While only nomination committee and remuneration committee in Hong Kong requires majority of members being independent directors. Finally, all sides state the main duties that those committees need to conduct. For audit committee, three sides are quite similar each other by

making similar provisions. The Principles provide more specific provisions than Mainland China, while Hong Kong provides the most specific provisions among three of them. Both the Principles and Hong Kong mention provision of non-audit services by the external auditor to a company can significantly impair their independence, while it is not mentioned on the Mainland legislations. For nomination committee the Principles emphasize the responsibility of transparent nomination procedure, but in both Mainland China and Hong Kong such responsibility is not specifically mentioned in law. Nomination committee in the Mainland is mainly taking in charge with nominating directors and senior managers in the company, while in Hong Kong nomination committee is mainly dealing with succession planning for directors especially the chairman and the CEO. Nomination committee in Hong Kong needs to assess the independence of independent non-executive directors, which is not the duty for the Mainland. For the remuneration committee, Mainland China and Hong Kong both focus on proposing remuneration policies to directors and senior managers, but Hong Kong provides much more specific provisions. To sum up, Hong Kong and Mainland China is basically in conformity with the Principles, but Mainland China this time seems to be closer to the Principles.

5.1.3 Shareholder Protections

5.1.3.1 Share Classes

OECD doesn't not support one share one vote policy, while is the case of Mainland China. The Mainland emphasizes on the equal treatment of the shares of the same class, whereas it is allowed to issue non-voting shares in Hong Kong. Investors are informed about the related information about the rights attached to each class of shares before investment. Any changes in rights should be subject to approval by holders of that class (at least 3/4 of nominal value) at their separate general meeting. Hence, Hong Kong is more consistent with the Principles in this aspect.

5.1.3.2 Minority Shareholder's Interest

In regard to the minority shareholders' interest, the Principles are very specific in this perspective, illustrating that minority shareholders have right to put any items on the general meeting agenda, also have rights to bring lawsuits if their rights are violated, which is also the case to Hong Kong and they are protected from abusive action by

majority shareholders. Finally the Principles argue that the board should be independent from majority shareholders' influence and has fiduciary responsibility to protect minority shareholder's rights, which is also the case to the Mainland and Hong Kong. The Mainland legislations say that minority shareholders' right is depended on their shareholding, since the Mainland supports one share one vote policy. This policy is against the Principles which do not hold positive position with "one share one vote". The director selection should fully reflect minority shareholder's opinion. Those public companies with more than 30% shareholding owned by controlling shareholders are asked to adopt a cumulative voting system. In Hong Kong, if someone in the company breaks the Exchange Listing Rules, minority shareholders have rights to have an appointed independent adviser. Ongoing and future connected transactions between the parent and new company could not hurt interest of minority shareholders of parent and new company. Minority shareholders of parent have assured entitlement to acquire any offering of existing or new shares in new company by the ways of distribution or preferred application. Minority shareholders can also raise objection if they discover that majority shareholder break their fiduciary principle; any substantial acquirement plan needs to be approved by the minority shareholders as well. There are also a lot of principles for majority shareholders and directors supporting minority shareholders' interest in Hong Kong. Clearly, Hong Kong is closer to the Principles.

5.1.3.3 Participation and Voting in General Meeting

In this regard the Principles emphasize shareholder's rights to ask question to board in the meeting, and the rights to present opinions on the remuneration policy for board members and key executives. Also equity component of compensation schemes for board members and employees should be approved by shareholders. All three sides agree that shareholders can attend the shareholder meeting in person or by appointing a proxy to attend. The Mainland legislation emphasizes that listed companies should put efforts on increasing the number of shareholders to present in the meetings by utilizing modern information technology means, which is similar to Hong Kong. Board of directors, independent directors and qualified shareholders can solicit the shareholders' right to vote in the meeting. In Hong Kong, voting by a show of hands

is mentioned. Both sides are in line with the Principles, with no significantly differences.

5.1.3.4 Right for Proxy Voting

In regard to proxy voting arrangement, the Principles illustrate that voting in person or by proxies have equal effects, and IT voting, and cross border voting should be also considered (by using modern technologies, and makes sure they have equal right in voting). Mainland China requires the power of attorney issued by the shareholder to be presented in the shareholder meeting. Hong Kong sets more restrictions compared to the Mainland, such as no more than 2 proxies are allowed to present in the shareholding meeting, so that it is more in line with the Principles.

5.1.3.5 Right to Call Extra General Meetings

Finally, about the right to call extra general meetings, no provisions on the Principles in this regard is found. The Mainland legislation is clearly mentioning the exact thresholds (1/10 of ownership) for demanding extra general shareholder meetings within 2 months, and exact percentage (two third) of ownership for passing resolutions. In Hong Kong, the provisions favor the minority shareholders by setting lower ownership requirement (1/20 of all issuing shares) and shorter period (within 28 days) to require for an extra meeting compared to the Mainland.

5.1.4 Region-Level Research Summary

From Table 5.1 in the next page, we can conclude that the Mainland China legislations account for 18% of total variables, whereas Hong Kong legislations make up 82% of total variables which is more in line with the Principles, if we disregard the unclear variables, such as director responsibility, etc. Hence, we can finally conclude that the Hong Kong legislations much outperform than the Mainland legislations on the region level.

Table 5.1 Overview of which region’s legislations are more in line with OECD Principles

Variables	The region legislations that are more in line with the Principles	
Director/Executive Shareholding		Hong Kong
Shareholding Pattern		Hong Kong
Chairman/CEO Separation		Hong Kong
Non-executive Board Directors		Hong Kong
Independent Non-executive Board Director		Hong Kong
Multiple Directorships		Hong Kong
Director Qualification and Biography		Hong Kong
Director Responsibility	Not Clear	
Meetings and Attendance of Directors	Mainland China	
Director Election Procedure	Not Clear	
Board Committees	Mainland China	
Share Classes		Hong Kong
Minority Shareholder’s Interest		Hong Kong
Participation and Voting in General Meeting	Not Clear	
Right for Proxy Voting		Hong Kong
Right to Call Extra General Meetings	Not Clear	
Percentage	18%	82%

5.2 Results of Company Level Research in Mainland China

Differences and similarities are discussed here in relation to regional legislations and the Principles. The variables presented are not specifically followed the order of Table 4.2. The results are collected from Appendix 2 and Appendix 3

5.2.1 Ownership Structure at Company Level in Mainland China

According to Company Law, both A shares and B shares carry one vote against one share. Most companies only issue ordinary shares, except CIMC which issues A shares for domestic investors and B shares for foreign investors. From table 5 we can see that directors are holding very small amounts of shares, as well as voting powers. The shareholdings of directors or executives are between 0.0005 percent and 0.03 percent, which are very small. The result shows that ownership structure of Mainland listed firms are very concentrated since top ten shareholders' shareholdings are between 54.45 percent and 87.74 percent. The top ten shareholders are mainly state owned controlling shareholders and state-owned bank's subsidiary private funds except CIMC whose top ten shareholders are mainly foreign investors. There are normally only one controlling shareholders in the companies who are state owners besides CIMC whose controlling shareholders are foreign institutional investors. The shareholding pattern is disclosed in all firms without specifically presenting in a separate section where company describes all shareholders in categories such as individuals, non-financial enterprises, non-banking financial institutions, government, foreign investors, ordinary staffs and executives and others, as breakdown of shareholdings is not disclosed in all firms. But it is not mandatory to be presented in the annual reports according to Company Law. So that the firms basically follow the rules set by legislations, as well as the Principles.

Table 5.2.1 Source: annual reports 2009 and websites of respective companies in the Mainland

Ownership Structure	Baosteel	Minmetals	Saic Motor	CIMC
Directors/ Executive Shareholding	0.0005%	0.013%	0.0006%	0.03%
Top 10 shareholders	77.30%	66.26%	87.73%	54.45%
Shareholding Categories	not disclosed	not disclosed	not disclosed	not disclosed

5.2.2 Ownership Structure at Company Level in Hong Kong

All sample companies only issue ordinary shares in Hong Kong Stock Exchange. From directors' shareholding information, we can see that besides Cathay Pacific Group, the directors in three other companies are holding very high percentage of

shares. The shareholding of directors or executives is between 0.039 percent and 52.29 percent. The result shows that ownership structure of Hong Kong listed firms are very concentrated since substantial shareholders' shareholdings are between 56.94 percent and 86.78 percent. The major substantial shareholders are mainly individuals and subsidiaries except Cathay Pacific Group whose substantial shareholders are mainly foreign big companies. The controlling shareholders are normally several individual except Cathay Pacific Group whose controlling shareholders are foreign institutional investors. Shareholding pattern is disclosed in all firms except CLP Holding without specifically presenting in a separate section where company describes all shareholders in categories such as individuals, non-financial enterprises, non-banking financial institutions, government, foreign investors, ordinary staffs and executives and others, since breakdown of shareholdings are not disclosed in these firms. But it is not mandatory to be presented in the annual reports according to Hong Kong legislations.

Table 5.2.2 Source: annual reports 2009 and websites of respective companies in Hong Kong

Ownership Structure	Hutchison Whampoa	Cathay Pacific Group	SUN HUNG KAI	CLP Holding
Directors/ Executive	52.29%	0.039%	44.80%	42.54%
Top 10 shareholders	84.78%(top 9)	71.96 %(top 4)	86.78% (top 3)	56.94%
Shareholding Categories	Not disclosed	Not disclosed	Not disclosed	Disclosed

5.2.3. Board Composition and Effectiveness at Company level in Mainland China

There are 11 to 16 members on boards including board of directors and supervisory board in the companies, which is in conformity of legislation (at least 8 persons on two boards). Chairmen at both boards are served by different director, which is again in line with the legislations. In Baosteel and Saic Motor, 2 members of board are served as employee representatives elected by the joint meeting of company's worker congress, while no information regarding employee representatives at board is found in Minmetals and CIMC. Non executive directors (supervisors on supervisory board)

are between 3 and 6 persons, which meets the requirement of legislation (at least 3 persons). 3 to 4 persons are independent directors on board of directors. Personal biography of directors is disclosed in details in the annual report. Also disclosure regarding multiple board directorships is available in all companies' annual reports except Saic Motor. Three special committees have been formed to be responsible for the Board of Directors: Committee for Strategic Development, Auditing Committee and Remuneration and Appraisal Committee in Baosteel, Saic Motor, and CIMC. In Minanetals, one more committee named nomination committee is established. It is not specifically disclosed about percentage of independent directors working on the committees in three other companies other than Baosteel, so Baosteel is chosen to analyst the situation of independent directors working on board committees. In Baosteel, committee for strategic development has been in charge of risk management in the company with one seventh of members being independent directors. The auditing committee is entitled the rights to handle complaints and reports to malpractices in preparation of financial reports that are above one's authority. The auditing committee has one director acting as accounting professional and 4 independent directors who make up 3/4 of its members. Remuneration and appraisal committee has all non-executive directors, with 3/4 of its members are independent directors. Beside strategic development committee, all other committees are in line with national legislation that requires independent directors to majority on board committees. Remuneration committee is set up with clear remuneration policy. Remuneration paid to directors and executives is also available specifically in the companies' annual reports. Disclosures regarding responsibilities of directors are all available adequately in the annual reports. During the year 6 to 16 meetings are held, which is completely in line with national legislation (at least 2 meetings required to be held). Meetings of board and committees held during the year are fully disclosed, with 90 to 100 percent attendance including the means of communication and commission.

5.2.4 Board Composition and Effectiveness at Company Level in Hong Kong

There are 14 up to 19 members on the board. Chairman and CEO are served separately, which is in line with the legislation. 2 to 9 persons on the boards are non executive directors and 4 to 7 independent non-executive directors, which is in line with recommended best practice of the Code. Personal biography of directors is

disclosed in details in the annual report. Regarding to disclosure of board member multiple directorships, only Sun Hung Kai and CLP holding are available in annual reports. About board committees under control of board, four companies vary significantly, which is not the case of Mainland China. In Hutchison Whampoa, the board is supported by 2 permanent board committees: the Audit Committee and the Remuneration Committee. The audit committee comprises 2 independent non-executive directors and 1 non-executive director who possess the relevant business and financial management experience and skills to understand financial statements and contribute to the financial governance, internal controls and risk management of the company. It is chaired by independent non-executive directors. The remuneration committee comprises 3 members with expertise in human resources and personnel emoluments. The committee is chaired by the chairman who is executive director with 2 independent non-executive directors, as members. For Cathay Pacific Group the board has established following committees: the board safety review committee, the executive committee, the finance committee, the remuneration committee and the audit committee, the latter 2 have the participation of independent non-executive directors. For Sun Hung Kai, the board is supported by 4 committees as follows: audit, remuneration, executive and nomination committees. For CLP holding, the board is supported by 7 committees as follow: Audit, Finance & General, Human Resources & Remuneration, Provident & Retirement Fund, Sustainability, China and Nomination Committee. For percentage of independent non-executive directors represented on the committees in 4 companies, we can see that most committees have majority of independent non-executive directors represented. All committees have majority of independent non-executive directors represented for Hutchison Whampoa; followed by Sun Hung Kai with 3/4 of committees having majority of independent non-executive directors represented, while 2/5 of committees happen in Cathay Pacific Group; finally CLP Holding lags behind compared to three other companies by having 1/7 of committees having majority of non-executive directors. Hong Kong sample companies are not in line with the Principles and state that all committees should set minimal numbers of independent directors represented on the committees or be comprised of all independent directors.

Remuneration committee has been set up with clear remuneration policy.

Remuneration paid to directors and executives is also available specifically in the companies' annual reports. Disclosure regarding responsibilities of all directors is all available sufficiently in the annual reports. During the year 4 to 6 meetings are held, which is in line with the legislation. Meetings of board and committees held during the year are fully disclosed with 75 to 100 percent attendance.

5.2.5 Shareholder Protection at Company Level in Mainland China

3 out of 4 sample companies in Mainland China issue single class of share, which is called ordinary shares (A shares). CMIC is the only sample company issuing dual class of shares. One is ordinary shares (A shares denominated in RMB for domestic investors), and the other is foreign shares issued domestically (B shares). Specific information about how many A shares are issued in the year can be found in annual report.

All of the companies does not directly mention about minority shareholder representation on the boards. However, the Company Law indicates that at least 1/3 of all the members of supervisory board should be the representatives of shareholders and company's employees. As what have mentioned in the previous subsection, only 2 companies (Baosteel and Saic Motor) declare that 2 members of the board are employee representatives.

Minmentals is the only company in the samples that does not disclose any information about shareholders' right for calling provisional meetings. The other three companies do hold at least one extra general meeting in 2009, which is aligned with the legislations and the Principles.

5.2.6 Shareholder Protection at Company Level in Hong Kong

Most of the sample companies in Hong Kong just issue ordinary shares to the shareholders, except Hutchison Whampoa which also issues a small part of preference shares.

No any direct information disclosed about minority shareholder representation on the boards. With regard to the protection of minority shareholder, the Principles

emphasize the independence from controlling shareholders. Hence, the present of independent directors on both the board and board committees can be viewed as the representatives of minority shareholders, which help deliver balanced opinions between controlling shareholders and minority shareholders.

All the companies comply with Companies Ordinance and the Principles, authorizing shareholders the right to call for extraordinary general meetings and put forward agenda items for consideration. Detail information about the date, location and resolutions on the meetings is also disclosed in the annual report.

Chapter 6 Analysis

The results of each dimension have been presented in previous chapter, it is then very important to conduct analysis of them illustrating the implicit implication behind the results. Analysis of dimensions with all sub-variables will be presented at regional level and company level below.

6.1 Region-Level Analysis

6.1.1 Ownership Structure

Why Hong Kong sets more limitations regarding director and executive shareholding is because of significant difference on ownership structure between two regions. In Hong Kong, the major characteristic of ownership structure is that it concentrates on an individual or a family (Ke, 2004), the board of director is also controlled by the family (Zhang, 2003). Directors or executives are the controlling family members. While it is not the case in the Mainland where the government or its directed institutions are normally the majority shareholders for listed companies. That is why the Hong Kong legislation needs to regulate stricter than the Mainland regarding director and executive shareholdings due to significant influences of individual or family owners within the company and the significant amount of shareholding held by them. While in the Mainland, the director and executive shareholding in company is comparatively and considerably smaller than Hong Kong. Due to the small ownership held by individuals in the Mainland listed firms, it is reasonable that no sufficient regulations are provided regarding director and executive shareholding.

The reason why the Mainland focuses on disclosing shareholding by top ten shareholders, and Hong Kong focuses on disclosing individual shareholdings might be also be understood with the fact that state-owned shareholders dominate the shareholding in Mainland China, while individuals especially families dominate shareholdings in Hong Kong.

6.1.2 Board Composition and Effectiveness

Regarding separation of CEO and chairman, both sides are in conformity with the Principles, but Hong Kong is closer to the Principles by setting up more distinct rules. The reason is because of different development stage of corporate governance in both sides. With higher developed stage of corporate governance, it is easy to understand

why Hong Kong requires harder separation of CEO and chairman position held by same person. Another reason is due to the nature of corporate governance system in Hong Kong where family is the controller of the company. In order to deal with this major problem, Hong Kong legislators need to set stricter rules to make clear separation of ownership and control.

The duty of non-executive directors in both sides varies so significantly. Non-executive directors in Hong Kong seem to have much more power compared to the Mainland. Firstly, again the different development stage of corporate governance can explain this perspective. Hong Kong has stock market earlier than the Mainland for nearly a century. The non-executive director system is historically better developed compared to the Mainland. The dominant character of family owned listed firms in Hong Kong reminds the legislators to improve regulation by setting more distinct rules to resolve agency problem which is caused by unclear separation of ownership and control among family owned firms. Secondly, an ineffective legislation setting of non-executive director system in Mainland China, can also explain the variation. Zhang, (2003) argues that the supervisory board is served as only internal watchdog over executive directors and managers. He finds that the German supervisory boards have a much broader power base, compared to Mainland China. In Germany, the member of board of directors has to be appointed and removed by the supervisory boards, and seeks consent from the supervisory board on the decision making, which is not the case to China (Wang, 2006). Tenev & Zhang (2002), Dahy(2003) find that the effectiveness of a typical supervisory board in the Mainland is undermined by its composition. Wang (2007) finds that the membership of the supervisory board consists of political officers, leaders of the non-functional trade union, or close friends and allies of the senior managers in the Mainland. While in Hong Kong, the non-executive director system follows British unitary tier system, focusing on equal duties of care, skill, and fiduciary duties as executive directors⁷⁵. It is easy to find that more power is given to non-executive directors in Hong Kong.

The reason why independent directors are only allowed to serve as independent non-executive directors (INEDs) in listed firms in Mainland China is because such

⁷⁵ Appendix 1

restriction can make sure of the independence of independent directors, and the early development stage of independent director system. In 21st August 2001, China Securities Regulatory Committee (CSRC) released the *Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies (Guideline)*, indicating that the independent director system has been formally set up (Lu, 2004). He argues that Mainland China has opened up the establishment of an independent director system, but the system is still immature. Wang (2007) argues that it is still very early to assess the effectiveness of this institution, since it is originally imported into China from Western countries with very different legal and cultural environment. Given to poor corporate governance in current situation, and failed practice of the supervisory board in the Mainland, invitation of independent director system seems to be so much meaningful for improving corporate governance, and brings legitimacy in the eyes of shareholders. In practice, there still exist many obstacles or problems in the implementation of an independent director system for listed companies in the Mainland. The problems are manifest in the following three aspects: the independence of independent directors is still quite weak in China; the independent director's right-to-know is unsecured; the rights of independent directors lack sufficient procedure guarantee and necessary judicial support (Lu, 2004). Hong Kong is closer to OECD Principles in this regard, indicating that it is better in law setting in this perspective than the Mainland, but improvement on its effectiveness in practice is still needed as well as the Mainland. One study indicates that it is still a little bit doubtful whether the appointment of INEDs in Hong Kong companies can provide effective checks and balances (Ho, 2003). The introduction of more INEDs in Hong Kong's corporate boards does not seem to have improved practice (Ho & Wong 2001). INEDs are often nominated by executive directors representing the controlling shareholders who hold the key votes at shareholders' general meeting of election or re-election of those executive directors. Those INEDs can be replaced any time if they are not loyal to the controlling shareholders (Ho, 2003). Thus, it is reasonable to see why the independent non-director system is better defined in Hong Kong in law due to the better development stage. However, due to the similar Chinese business culture in both sides that emphasizes on interpersonal relationship network within company, both sides still require a lot of efforts to make the system actually work in practice.

The variation regarding multiple directorships can be explained by different development stage of corporate governance in both sides. Hong Kong requires disclosure of multiple directorships in director election. That is a kind of shareholder protection. Like the Principles state, too many multiple directorships limit the performance of directors. It might also signals that Hong Kong is providing better shareholder protection in law than the Mainland.

Hong Kong requires at least 4 board meetings to be held which is larger than the Mainland, which complies with Zeng (2004) who finds that Hong Kong companies' standing order rules are stricter than the Mainland. The reason might be due to the dominant nature of family owned firms in Hong Kong, most directors might be the representatives of controlling family. The regulators set stricter board standing order rules, for example, times requirement of meetings in order to solve the problem of unclear separation of ownership and control, and to enhance the director legitimacy in the eyes of all shareholders, especially the minority shareholders.

Looking back to the Mainland, the controlling shareholders of listed firms are mainly representatives of the government, while the legislator is also representatives of the government. Directors are mainly elected and appointed by the government. It is less urgent to enhance legitimacy of directors since the directors can be seen as appointed by the legislators themselves.

According to OECD Principles, independent directors should be included inside the nomination committee and play important role on the committee. Both regions are in line with this recommendation. The reason is easy to understand by the fact that both sides are having concentrated owners as what has analyzed above. So that it is critical to have independent directors on the nomination committee to propose nominators representing not only the controlling shareholders but more importantly the minority shareholders. Both sides are having serious problems with high concentrated ownership, and unclear separation of ownership and control, so that the regulators need to emphasize importance of independent directors on nomination committees in law to protect the minority shareholder rights and attract domestic and international investors.

Regarding director responsibility, qualification, and biography, both sides are not significantly different. The reason is simple: they are basic elements in constructing effective board. So no matter what kind of corporate governance system the country or region is adopted, they should be all defined very specifically in law. But due to different nature of corporate governance system followed in two sides, there are still some differences can be found. Hong Kong is using management mechanism of director centralism that focuses on management efficiency, compared to management mechanism of power equalization and balance used in the Mainland (Zeng, 2006). Director centralism emphasizes mainly on fiduciary, legal and interest-maximized principles. So that director responsibility in Hong Kong is more specific than in the Mainland⁷⁶.

The ethic committee that is recommended to set up by the Principles, might be caused by a series of collapses of big companies since 2001 in the US, especially Enron was regarded the most influential one. The Enron board was criticized by the public since it was involved in the ethical scandal, and was regarded as one of the vital reasons causing the collapse of Enron (Clarke, 2007). The reason why it is not mentioned by the Mainland and Hong Kong legislation might because of the slow legislation process in the both sides. The legislations in Mainland China and Hong Kong are still under lower development stage compared to the US. The nomination committee and an appropriate board committee for special purpose that are recommended to be established indicate comparatively flexible board committee setting in Hong Kong compared to the Mainland. This might be due to different value orientation in corporate governance legislation setting influenced by different international corporate governance systems. Hong Kong emphasizes on value of freedom, and considers efficiency, fairness and security, under the influence of Anglo Saxon system. While Mainland emphasizes on value of security, and takes efficiency, fairness and freedom into account, under influence of Germanic system (Zeng, 2003). Majority of independent directors are required to be chaired on more committees in the Mainland than in Hong Kong. The reason might be due to the Mainland economy scale where is much large than Hong Kong. Mainland China needs to consider vaster scale when

⁷⁶ Hong Kong Listing Guideline, p317

develops its corporate governance system.

6.1.3 Shareholder Protection

In order to reflect a balanced opinion between the majority shareholders and minority shareholders, both the laws in Mainland and Hong Kong are in favor of the present of independent directors in the management board. However, Hong Kong has more restrict requirements on qualification examination of potential independent directors.

The related legislations in the Mainland focus generally on descriptive duties of independent directors, except cumulative voting system. Such voting system can enhance minority shareholders' voting power to elect their representative to the board, but is not mandatory required. Looking back at Hong Kong, legal documents further authorize minority shareholders the rights to accuse if their rights are infringed. The interests of minority shareholders are also protected in any ongoing or future connected transactions.

Laws in Mainland China indicate shareholders have one voting right for each share they holds, while in Hong Kong, companies can issue ordinary shares, as well as preferred shares which have no voting rights. It is worth noting that a significant part of the company's issuing shares are held by the government and nontransferable in the Mainland, the rest are then freely traded on the public capital market. In other word, voting power attached by shares transaction available to individual shareholders is limited in the Mainland.

In regard to shareholders' voting rights, both Mainland and Hong Kong support the behavior of proxy voting. But Hong Kong is more efficient on restricting the abusive actions by controllers, hence, more conformed to the Principles. The reason is because the legislations in Hong Kong emphasize more on procedural rights. The legal requirements are more precise and specific, especially on the decision making proceeding, such as the type of resolutions and voting manners. To the contrary, the legislations in Mainland China are more general, which emphasize more on the setting of substantive rights, while ignore the design of right exercise procedure (Zeng, 2004). It seems that the terms of reference of the shareholders' assembly in Hong Kong are more limited than those in Mainland, but actually are easier to carry out in

judicial practice (Zhang, 2003).

Shareholders are encouraged to participate in the annual general meeting both in Hong Kong and Mainland. Actually, in Mainland China, according to Hua (2005), only 11% of the total public shareholders actively participate the annual general meeting. This may be due to the dispersed geographical distribution of individual investors and high monitoring costs (Voß & Xia, 2006). As a consequent, the state-owned majority shareholders dominate the meeting without the check and balance of minority shareholders, and the general meeting exists in name only.

The shareholders in the Mainland and Hong Kong all enjoy the right the call for extra general meetings, but according to the legislation in Hong Kong, lower ownership threshold are required, and shorter time are allowed for the directors to arrange the meeting. If the directors do not convene a meeting within the given time, requisitionists holding more than half of the total voting rights of them even can convene a meeting by themselves. The legislation in Hong Kong turns out to concern more about all the shareholders, especially minority shareholders' rights.

General speaking, Hong Kong provides better protection for shareholders, especially the minority shareholders. In principle, such result may be related to the nature of legal origin of Hong Kong, which is greatly influenced by the British corporate governance system, hereby aim at maximizing shareholders' interest, including the minority shareholders. In practice, one reason attributed to such result may be the gap of development level of capital market and corporate governance in both regions, Mainland China is far lag behind Hong Kong. The other reason contributed to such result may be the wide present of family controlled companies in Hong Kong, since the controlling shareholders tend to overmatch the family's interest above the interest of minority shareholders. Hence, more legal protection is needed to reduce the harm to minority shareholders. Although the ownership is also highly concentrated in Mainland, the majority shareholder is the government, which is just the one making the rules.

6.2 Company-Level Analysis

6.2.1 Ownership Structure

The ownership structure difference at company level is similar as the evidence found at regional level. The sample companies in two regions are complied with the respective legislations quite well. In the Mainland, the director shareholdings are between 0.0006 percent to 0.03 percent, compared to 0.039 percent to 52.29 percent in Hong Kong⁷⁷. The reason why there are such huge differences can be understood with the fact that there are a lot of directors holding no shares or very few shares in the Mainland. No shareholding or comparatively few shareholding might affect directors' motivation in decision making, and causes agency cost (Chen, 2007). In Hong Kong, the director shareholdings are much higher especially in 3 family owned sample firms (from 42.54 percent to 52.59 percent), due to the reason that the directors are the controlling family members (Zhang, Li and Fang, 2009). Substantial shareholders or controlling shareholders in two regions differ so hugely, which can be understood with different nature of company ownership structure in both sides. Here are some information regarding substantial shareholders and controlling shareholder in both sides: Xiang (2002) finds that almost every listed company is controlled by family excluding Mainland firms listed in Hong Kong. In 1994, ten richest families held 46.8 percent of total value of listed firms in Hong Kong, controlling shareholders from top ten listed firms held 46.3 percent of stock in the stock market. He also finds that top ten shareholders from 1128 listed firms on Shenzhen and Shanghai Stock Exchanges held 66.15 percent of total shares up to 30th July, 2001, while 51.6 percent of total shares on stock exchanges are held by the state owned enterprises, and the government. Liu and Sun (2005) identify that 81.6% of all listed companies were directly or indirectly controlled by the state, with shareholdings of 48% of all shares on average before 2002. The data illustrate that individual and family are substantial or controlling shareholders in Hong Kong, while state owned enterprises and the government are substantial or controlling shareholders of listed firms in the Mainland. The data verify exactly the analysis based on region level.

6.2.2 Board Composition and Effectiveness

In regard to board size, there is trade off on board size: some scholars suggest that bigger boards can increase monitoring capabilities while others suggest that bigger

⁷⁷ Appendix 2 and 3

boards will result in more bureaucracy, slower decision making and more difficult to capture the CEO. Lipton & Lorsch (1992) find that ineffectiveness of board is caused by increased numbers of directors, and they recommend setting an upper limit of board members (10 persons), and preferred board member should be 8 to 9 persons. Alexander, et al (1993) find that compared with smaller boards, bigger boards are usually more diversified, easier to cause disputes, and have less cohesion. Yermack (1996) finds a negative relationship between firms' performance and board size. Mainland sample firms are closer to the minimal requirement of legislations. However, Hong Kong does not provide law provisions regarding this prospective. Hong Kong sample firms have more directors on boards than the Mainland by approximately 3 persons. According to study results from other researchers mentioned before, it indicates that Hong Kong sample companies lag behind in this perspective as they have more directors held on the boards. The reason might be caused by more directors held by the substantial or controlling shareholders, mainly by family members, which again confirms the obvious phenomenon of unclear separation of ownership and control in Hong Kong listed family owned firms.

Both sides' sample companies have separated roles of chairman and CEO, which is both in line with the regional legislations and the Principles, and indicates that both sides' companies have put efforts on improving unclear separation of ownership and control caused by over concentrated ownerships held by substantial shareholders.

In regard to non-executive directors, all Mainland companies meet the quorum requirement of legislation, while no number requirement is mentioned on Hong Kong legislation. More non-executive directors are held on board in Hong Kong than the Mainland. In regard to independent non-executive directors, the opposite situation happens that quorum requirement is mentioned in Hong Kong legislation while is not the case to the Mainland. Hong Kong meets the requirement and again outnumbers Mainland by 1 to 3 persons on the board. To sum up, Hong Kong sample listed firms have more non-executive directors (including independent non-executive directors)

In regard to multiple directorship limits, directors who have too many directorships in other companies will affect their performance and independence according the

Principles. Two Hong Kong sample firms disclose their multiple directorships while three Mainland firms do this. This is in line with conclusion drawn from regional analysis that Hong Kong is providing better shareholder protection in law than the Mainland. Since more sample firms from Mainland are having multiple directorships than Hong Kong.

In regard to director qualifications, biographies, and responsibilities, both sides are not in significant differences, but director responsibility seems to be more specific in annual reports for Hong Kong sample companies, which is again complied with region-level analysis. The reason is easy to understand, since this is the clear picture for investors to assess the effectiveness of the board for making final investment decisions.

In regard to board meeting and attendance of directors, higher percentage of director attendance is recorded and more board meetings are held in the Mainland compared to the Hong Kong firms which are only close to minimal requirement (4 times a year). It indicates that Hong Kong sample companies are less incentive to hold board meeting due to the fact that the directors are normally also controlling family members on the board, and they may tend to solve some issues in informal way. It explains why Hong Kong regulators need to set up stricter board standing order rules.

Regarding to board committees, Hong Kong sample companies differ each other more obvious than Mainland sample firms. It indicates that Hong Kong sample firms are flexible than Mainland's, which is complied with the analysis of regional level.

In regard to percentage in independent non-executive directors chaired on the committees, it is difficult to compare two sides' differences, as only one Mainland company discloses this perspective. But both sides seem to be more or less similar in this regard, which is also complied with the regional level analysis.

6.2.3 Shareholder Protection

No direct information disclosed about minority shareholder representation on the boards in all sample companies in both regions. But as the representatives to provide

balanced opinion between controlling shareholders and minority shareholders, on average, more independent non-executive directors out of total board members are presented on the board in Hong Kong (0.30 compared with 0.27). Similarly, high percentage of independent directors is found in board committees in Hong Kong. While most of the sample companies in Mainland do not disclose information about this aspect.

All of the sample companies except Minmentals in the Mainland disclose specific information about extraordinary general meetings in annual report, including the date and location of the meetings, the announcement of resolutions are all published after the meeting. Detail information about the resolutions is mentioned in annual report in Hong Kong companies. Even the voting result of each individual resolution is also available in Hutchison Whampoa. We can notice that although the threshold to call for extraordinary general meetings is looser, less provisional meetings are convened in Hong Kong. Such result may be interpreted that firms in Hong Kong are working more efficiently, and doing better in protecting the interest of minority shareholders. This is identical with the evidences found on regional level analysis.

6.3 Traditional Chinese cultural factor consideration

Due to the historical reason, western culture is very prevalent in Hong Kong. At the same time, Hong Kong also keeps very well legacy of traditional Chinese culture, even better than the Mainland, due to the cultural disaster of Cultural Revolution happened in the Mainland between 1966 and 1976 by which most traditional Chinese cultures with thousand years of history were destroyed, such as historical sites and relics, etc. Confucianism was particularly and fiercely criticized and abandoned. The traditional cultures in the Mainland have been recovered in recent years but very slowly. *Guanxi* (Personal relationship) that has been analyzed above frequently is the biggest business cultural factor deeply affecting corporate governance. Besides, there are other traditional Chinese cultural factors that can explain the differences and similarities of corporate governance systems in both regions. Young (2010) argues that paternalistic governance in China and Hong Kong is a product of Chinese

traditional values based on Confucian doctrines. The concept of *sangang*⁷⁸ presents a clear hierarchical order in the Confucian universe. This order gives unprecedented power to those who are in-charge, namely the king over his subjects, a husband over his wife and a father over his children. He argues that the father who is usually the founder and chairman/CEO in Chinese family-owned businesses reigns over all matters in company, the decisions of the chairman/CEO is often unquestioned by others members of the family on the company board, and notions of conflicts of interest might not register as an important matter because the chairman/CEO might think his actions are for the interest of his family. He says that conflicts are unacceptable behavior, thus should either be avoided or resolve to the satisfaction of parties involved. The Confucius doctrines can explain why there are so many family-owned companies in both regions especially in Hong Kong, and why the problem of unclear separation of ownership and management is comparably prevailing in Hong Kong.

6.4 Political factor consideration

Due to the historical reason, two completely different political systems are implemented in both regions. The socialism system was adopted in the Mainland since the PRC was founded in 1949, while the capitalism system can be traced back to 1884 in Hong Kong under the British administration. Such system was still kept after the sovereignty of Hong Kong was returned back to the People's Republic of China in 1997. Different political system from the Mainland is adopted in Hong Kong by carrying out the policy called "one country, two systems". The political factor can explain why state-owned enterprises are still prevailing in the Mainland, and why proportion of family-owned firms in the Mainland is smaller compared to Hong Kong.

⁷⁸ This refers to the obligations of official to monarch, son to father, wife to husband. See Kai-wing Chow(1994), *The Rise of Confucian Ritualism in Late Imperial China: Ethics, Classical, and Lineage Discourse*, Stanford University

Chapter 7 Concluding remarks and Further Research

In the last chapter, the final conclusions will be drawn based on all above chapters, further research recommendations regarding how to better extend this study in the future will be also illustrated.

7.1 Conclusion

In this paper, the differences and similarities of Mainland China and Hong Kong on corporate governance were examined. The corporate governance mechanism should be evaluated at both region and company levels, since legislation setting and regulatory enforcement are equally critical. Such corporate governance mechanism is regarded to bring more complete understanding to the research and legal and practical senses to investors for making more precise investment decisions towards countries.

Qualitative methodology is suitable for study based on both region and company level, as the purpose statement of this study is based on in-depth study, and trying to explore the particular area (the comparison on corporate governance system between two regions). The documentary research approach is found to fit this study for data collection as it fits the region and company level study based on public document research.

After examining three important dimensions: ownership structure, board composition and effectiveness and shareholder protection, some differences are observed in both regions. Generally, Hong Kong outperforms on the legislation settings at region level and regulatory enforcement at company level than Mainland China, hereby it is more in line with the Principles.

It is found that the legislations in Hong Kong are more concrete and detailed compared to Mainland China. Hong Kong is doing better than the Mainland in various aspects, such as the board independence, protection of minority shareholders, and the role of shareholders general meeting, etc, which can explained by the fact that Hong Kong is in developed stage of its corporate governance system compared to developing stage in Mainland China, and the legislations of corporate governance in Hong Kong can be traced to much longer history than the Mainland. Similarly, Hong Kong is found to be more efficient on regulatory enforcement at company level, even

at some aspects that the laws in Hong Kong do not provide relative requirements but required in the Mainland. This may be attributed to the higher level of self-regulation and more voluntary efforts from Hong Kong companies.

By deeply exploiting the root causes, there are four reasons contribute to the differences of corporate governance between Mainland China and Hong Kong. The first factor from the root is different nature of corporate governance system between the two regions that causes prevailing phenomenon of high ownership concentration, and different management mechanism in both regions, etc.

The second factor is the difference of legal origin. Mainland China experiences greater influence from Germanic corporate governance systems that two-tier board system is adopted, while Hong Kong follows the British legislation mode which a unitary board system is applied. Different value orientation in both regions is found under influence from these international corporate governance systems. However, the supervisory board in Mainland China only has limited rights to monitor the management board compared to Germanic corporate governance systems. Without too much real power to realize its role as an independent mechanism, it performs practically no function.

The third factor is the difference of development stage of corporate governance. The development of corporate governance in the Mainland is just in its developing stage. The legislations in Mainland China seem to be a little general, focusing more on the substantive rights. However, the corporate governance in Hong Kong is under its developed stage. Therefore the legal documents tend to be more concrete and comprehensive, emphasizing more on the procedural rights. This also contributes to more efficient enforcement and higher level of self-regulation from companies in Hong Kong.

The fourth factor at the bottom is the difference of political system. As a Special Administrative Region in China, Hong Kong still retains the current capitalist system. While Mainland China adopts the socialist system, which leads to the widely present and dominant position of state owned companies. Hence, as government being the

ultimate controller, the conflict of interest between minority shareholders and government is raised. Such capital structure also results in the weakness even uselessness on separation of chairman and CEO, since both of them are appointed by the government.

Although there were many differences found in these two regions, some similarities were existed that relate to the tendency of global convergence of corporate governance systems, such as the introduction of independent directors, etc. To some extent, the similarities were also due to the nature of Chinese traditional culture environment which affects both regions deeply, for example, *Guanxi* and Confucius doctrines, which is fully reflected by the great amount of family-owned companies in Hong Kong, and the board composition in both regions.

Generally speaking, both Mainland China and Hong Kong have imperfections on their corporate governances, but the situation in Mainland China seems more serious and obvious. Continued reform on the existing corporate governance system is needed in Mainland China relative to the global OECD Principles. As a better example of combination of western system and eastern culture, Hong Kong is a case with great reference value to Mainland China. Even it is conceivable for Mainland China to develop a distinct corporate governance system which suits the unique Chinese business, political, and cultural environment.

7.2 Future Research

Due to time constraint, only three dimensions were examined in this study. The other dimensions like executive compensation, disclosure, if can be examined, might provide more complete picture for this study. Hence, it is recommended to choose more dimensions in the future research in this area. With the same reason, very few sample companies in both regions were examined. Therefore, it is highly recommended to conduct the future studies focusing on more sample companies, so that a more precious conclusion can be drawn. Similarly, only documentary research approach for data gathering was selected, other techniques like surveys and interviews which fit on country level analysis like market and information infrastructures, might provide a more realistic picture in the comparative study of regional or national

corporate governance systems, therefore, it is also highly recommended to apply them in the future researches.

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Appendices

Appendix 1 Region-Level Matrix

	Mainland China	OECD Principles	Hong Kong
Ownership Structure			
Directors/ Executive Shareholding	<p>Article 66 A listed company whose shares or bonds have been listed for trading shall, within four months as of the of each accounting year, submit to the securities regulatory authority under State Council and the stock exchange and annual report indicating the following contents and announce it: (3)A brief introduction to the directors, supervisors, and senior managers of the company well as the information regarding their shareholding (Security Law)</p>		<p>3.Listed issuers are encouraged to include the following information in their Corporate Governance Report: (a) Share interests of senior management (i) the number of shares held by senior management (i.e. those individuals whose biographical details are disclosed in the annual report). Directors' Disclosure <i>Main Board and GEM</i> Section 341 of the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong applies to directors of listed companies. It requires such a director to disclose any of the following events to the SEHK: (i) when he becomes interested in the shares or debentures of a listed company or any associated company; (ii) when he ceases to be interested in such shares or debentures; (iii) when he enters into a contract to sell any such shares or debentures; (iv) when he assigns any right granted to him by the listed company to subscribe for shares or debentures of the listed company; (v) when an associated company grants him rights to subscribe for shares or debentures of that associated company, or if he exercises or assigns such rights; (vi) when the nature of his interest in the shares or debentures of the listed company or any associated company changes; and (vii) when he comes to have or ceases to have a short position in the shares of a listed company or any associated company. The</p>

			<p>notification time limit allowed is 3 business days. Securities and Futures Ordinance - Disclosure of Interests requires directors to disclose interests and dealings (including those of their spouse, children under 18 and companies under their control) in shares or debentures of the company or its associated companies (A Guide for Effective Board)</p> <p>341. Duty of disclosure by director and chief executive (1) A director or chief executive of a listed corporation comes under a duty of disclosure on the occurrence, while he is a director or chief executive of the listed corporation, of any of the following events—(a,b,c,d,f) (Hong Kong Securities and Future Ordinance)</p>
Shareholding Pattern	<p>93. A listed company shall learn about and disclose in a timely manner, changes in the shareholding of the company and other important matters that may cause changes in the shareholding of the company</p> <p>94. When controlling shareholders increase or decrease their shareholding or pledge the company's shares, or when the actual control of the company transfers, the company and its controlling shareholders shall timely and accurately disclose relevant information to all shareholders (Code of China)</p> <p>Article 66 A listed company whose shares or bonds have been listed for trading shall, within four months as of the end of each accounting year, submit to the securities regulatory authority under the State Council and the stock exchange an annual report indicating the following contents, and announce it (4) The information on shares and</p>	<p>VA (3) One of the basic rights of investors is to be informed about the ownership structure of the enterprise and their rights vis-à-vis the rights of other owners. The right to such information should also extend to information about the structure of a group of companies and intragroup relations. Countries often require disclosure of ownership data once certain thresholds of ownership are passed. Such disclosure might include data on major shareholders and others that, directly or indirectly, control or may control the company through special voting rights, shareholder agreements, the ownership of controlling or large blocks of shares, significant cross shareholding relationships and cross guarantees</p>	<p>3.Listed issuers are encouraged to include the following information in their Corporate Governance Report:</p> <p>(a) Share interests of senior management (i) the number of shares held by senior management (i.e. those individuals whose biographical details are disclosed in the annual report).</p> <p>Directors' Disclosure <i>Main Board and GEM</i> Section 341 of the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong applies to directors of listed companies. It requires such a director to disclose any of the following events to the SEHK: (i) when he becomes interested in the shares or debentures of a listed company or any associated company; (ii) when he ceases to be interested in such shares or debentures; (iii) when he enters into a contract to sell any such shares or debentures; (iv) when he assigns any right granted to him by the listed company to subscribe for shares or debentures of the listed</p>

	<p>corporate bonds as already issued, including the name list of the top 10 shareholders who hold the largest numbers of shares in the company as well as the amount of shares as held thereby (Security Law)</p>		<p>company; (v) when an associated company grants him rights to subscribe for shares or debentures of that associated company, or if he exercises or assigns such rights; (vi) when the nature of his interest in the shares or debentures of the listed company or any associated company changes; and (vii) When he comes to have or ceases to have a short position in the shares of a listed company or any associated company. The notification time limit allowed is 3 business days. 310. Duty of disclosure: cases in which it may arise (1) Where— (a) a person acquires an interest in shares comprised in the relevant share capital of a listed corporation or ceases to be interested in shares so comprised (whether or not having or retaining an interest in other shares so comprised); (b) any change occurs affecting facts relevant to the application of section 313 to a person's existing interest (or part thereof) in shares comprised in a listed corporation's share capital of any description, then in the circumstances specified in section 313(1), he comes under the duty of disclosure. (2) Where a person is— (a) interested in shares comprised in the relevant share capital of a corporation at the time when the corporation becomes a listed corporation; (b) interested in shares comprised in a listed corporation's share capital of a particular class at the time when the listed corporation's share capital of that class becomes relevant share capital; or (c) interested in shares comprised in the relevant share capital of a listed corporation at the commencement of this Part, if such interest has not previously been disclosed to the listed corporation and the Exchange Company under the Securities</p>
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			<p>(Disclosure of Interests) Ordinance (Cap. 396) before its repeal under section 406, then in the circumstances specified in section 313(2), he comes under the duty of disclosure.</p> <p>(3) Where a person is interested in shares comprised in the relevant share capital of a listed corporation at the time when there is a reduction in the notifiable percentage level made by regulations, then in the circumstances specified in section 313(3), he comes under the duty of disclosure.</p> <p>(Hong Kong Securities and Future Ordinance)</p>	
Board Composition and Effectiveness				
Chairman/ CEO Separation	<p>Article 110 The board of directors shall have one chairman, and may have deputy chairmen. The chairman and deputy chairmen shall be elected by more than half of all the directors.</p> <p>Article 118 The board of supervisors shall have one chairman, and may have a deputy chairman. The chairman and deputy chairman shall be elected by more than half of all the supervisors.</p> <p>No director or senior manager may concurrently act as a supervisor.(Company Law)</p>	<p>VIE In countries with single tier board systems, objectivity and independence of board may be strengthened by the separation of the role of chief executive and chairman or if these roles are combined then representation of a lead non-executive director is considered as best practices. As it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management. In the case of two tier board systems, consideration should be given to whether corporate governance concerns might arise if there is a tradition for the head of the lower board becoming the chairman of the supervisory board on retirement.</p>	<p>A.2 Chairman and Chief Executive Officer Principle There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.</p> <p>A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. <i>Note: Under paragraphs 2(c)(vii) and 2(d) of Appendix 23, issuers must disclose in their Corporate Governance Report the identity of the chairman and the chief executive officer and whether these two roles are segregated and the nature of any relationship (including financial, business, family or other material/relevant relationship(s)), if any, among members of the board and in particular, between the chairman and the chief</i></p>	

			<i>executive officer.</i> (Code of Hong Kong)	
Board Size	<p>Article 109 A joint stock limited company shall set up a board of directors, which shall comprise 5-19 persons.</p> <p>Article 118 A joint stock limited company shall set up a board of supervisors, which shall comprise at least 3 persons.(Company Law)</p>			
Non-executive directors	<p>Article 53 Every term of office of the supervisors shall be 3 years. The supervisors may, after the expiry of their term of office, hold a consecutive term upon re-election.</p> <p>Article 54 The board of supervisors or supervisor of a company with no board of supervisors may exercise the following authorities:</p> <p>(1) checking the financial affairs of the company;</p> <p>(2) supervising the duty-related acts of the directors and senior managers, and bringing forward proposals on the removal of any director or senior manager who violates any law, administrative regulation, the articles of association or any resolution of the shareholders' meeting;</p> <p>(3) demanding any director or senior manager to make rectifications if his act has injured the interests of the company;</p> <p>(4) proposing to convening temporary shareholders' meeting, and convening and presiding over shareholders' meeting when the board of</p>	<p>VIE Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks, where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and nonfinancial reporting, the review of related party transactions, nomination of board members and key executives, and board remuneration.</p>	<p>A.5.2 The functions of non-executive directors should include but should not be limited to the following:</p> <p>(a) participating in board meetings of the issuer to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; (b) taking the lead where potential conflicts of interests arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.</p> <p>A.5 Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. 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.</p> <p>A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.</p> <p><i>Note: Under paragraph 2(e) of Appendix 23, issuers must disclose the term of appointment of non-executive directors in the Corporate Governance Report.</i></p> <p>A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those</p>	

	<p>directors does not exercise the functions of convening and presiding over the shareholders' meeting as prescribed in this Law;</p> <p>(5) bringing forward proposals at shareholders' meeting;</p> <p>(6) initiating actions against directors or senior managers according to Article 152 of this Law; and</p> <p>(7) other duties as prescribed by the articles of association.</p> <p>Article118 A joint stock limited company shall set up a board of supervisors, which shall comprise at least 3 persons.</p> <p>The board of supervisors shall include representatives of shareholders and an appropriate percentage of representatives of the company's employees. The percentage of the representatives of employees shall account for not less than 1/3 of all the supervisors, but the concrete percentage shall be specified in the articles of association. The representatives of employees who serve as members of the board of supervisors shall be democratically elected through the assembly of representatives of the company's employees, the assembly of employees or by other means.</p>		<p>appointed for a specific term, should be subject to retirement by rotation at least once every three years.</p> <p>Recommended Best Practices</p> <p>A.5.7 Non-executive directors, as equal board members, should give the board and any committees on which they serve such as the audit, remuneration or nomination committees 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.</p> <p>A.5.8 Non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive and informed comments. (Code of Hong Kong)</p>
<p>Independent Non-executive Directors</p>	<p>49. A listed company shall introduce independent directors to its board of directors in accordance with relevant regulations. Independent directors shall be independent from the</p>	<p>VIE Independence from controlling shareholders or another controlling body will need to be emphasized, in particular if the <i>ex ante</i> rights of</p>	<p>A.1.8 If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation</p>

	<p>listed company that employs them and the company's major shareholders. An independent director may not hold any other position apart from independent director in the listed company.</p> <p>50. The independent directors shall bear the duties of good faith and due diligence toward the listed company and all the shareholders. They shall earnestly perform their duties in accordance with laws, regulations and the company's articles of association, shall protect the overall interests of the company, and shall be especially concerned with protecting the interests of minority shareholders from being infringed. Independent directors shall carry out their duties independently and shall not subject themselves to the influence of the company's major shareholders, actual controllers, or other entities or persons who are interested parties of the listed company.</p> <p>52. The board of directors of a listed company may establish a corporate strategy committee, an audit committee, a nomination committee, remuneration and appraisal committee and other special committees in accordance with the resolutions of the shareholders' meetings. All committees shall be composed solely of directors. The audit committee, the nomination committee and the remuneration and appraisal committee shall be chaired by an independent director, and independent directors shall constitute the majority of the committees. At least one independent director from the audit</p>	<p>minority shareholders are weak and opportunities to obtain redress are limited. This has led to both codes and the law in some jurisdictions to call for some board members to be independent of dominant shareholders, independence extending to not being their representative or having close business ties with them. Independent nonexecutive directors can contribute significantly to the decision-making of the board and their representation on board is encouraged to protect minority shareholder rights.</p>	<p>or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.</p> <p>A.2.7 The chairman should at least annually hold meetings with the nonexecutive directors (including independent non-executive directors) without the executive directors present.</p> <p>A.3The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent nonexecutive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgment. Nonexecutive directors should be of sufficient caliber and number for their views to carry weight.</p> <p><i>Notes: 1 Under rule 3.10, every board of directors of a listed issuer must include at least three independent non-executive directors.</i></p> <p>A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the issuer</p> <p>Recommended Best Practices</p> <p>A.3.2 An issuer should appoint independent non-executive directors representing at least one-third of the board. (Code of Hong Kong)</p>
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	<p>committee shall be an accounting professional.(Code of Mainland China)</p>			
<p>Multiple directorships limitation</p>	<p>29.Detailed information regarding the candidates for directorship shall be disclosed prior to the convening of the shareholders' meeting to ensure adequate understanding of the candidates by the shareholders at the time of voting.</p> <p>30. Candidates for directorship shall give written undertakings to accept their nomination, to warrant the truthfulness and completeness of the candidate's information that has been publicly disclosed and to promise to earnestly perform their duties once elected.</p> <p>32. Appointment agreements shall be entered into by a listed company and its directors to clarify such matters as the rights and obligations between the company and the director, the term of the directorship, the director's liabilities in case of breach of laws, regulations or articles of association, and the compensation from the company in case of early termination of the appointment agreement for cause by the company. (Code of Mainland China)</p>	<p>VIE (3) Board members should be able to commit themselves effectively to their responsibilities. Service on too many boards can interfere with the performance of board members. Companies may wish to consider whether multiple board memberships by the same person are compatible with effective board performance and disclose the information to shareholders.</p> <p>In order to improve board practices and the performance of its members, an increasing number of jurisdictions are now encouraging companies to engage in board training and voluntary self-evaluation that meets the needs of the individual company. This might include that board members acquire appropriate skills upon appointment, and thereafter remain abreast of relevant new laws, regulations, and changing commercial risks through in-house training and external courses.</p> <p>VA(4) it is important to disclose membership of other boards not only because it is an indication of experience and possible time pressures facing a member of the board, but also because it may</p>	<p>A.4.2 Notes: 1 The names of all directors submitted for election or re-election must be accompanied by the same biographical details a required for newly appointed directors set out in rule 13.51(2) (including other directorships held in listed public companies in the last three years and other major appointments) to enable shareholders to make an informed decision on their election.(Code of Hong Kong)</p>	

		<p>reveal potential conflicts of interest and makes transparent the degree to which there are inter-locking boards.</p>	
<p>Board Meetings and Attendance of Directors</p>	<p>Article 111 The board of directors shall convene at least two meetings every year, and shall notice all directors and supervisors 10 days before it holds a meeting.</p> <p>Article 112 No meeting of the board of directors may be held, unless more than half of the directors are present. When the board of directors makes a resolution, it shall be adopted by more than half of all the directors. As for the voting on a resolution of the board of directors, a director shall have one vote only.</p> <p>Article 113 The directors shall attend in person the meetings of the board of directors. Where any director is unable to attend the meeting for a certain reason, he may, by issuing a written power of attorney, entrust another director to attend the meeting on his behalf, and the scope of authorization shall be stated in the power of attorney.(Company Law)</p>	<p>VIE(3) Board members should be able to commit themselves effectively to their responsibilities. Service on too many boards can interfere with the performance of board members. Companies may wish to consider whether multiple board memberships by the same person are compatible with effective board performance and disclose the information to shareholders. Some countries have limited the number of board positions that can be held. Specific limitations may be less important than ensuring that members of the board enjoy legitimacy and confidence in the eyes of shareholders. Achieving legitimacy would also be facilitated by the publication of attendance records for individual board members (e.g. whether they have missed a significant number of meetings) and any other work undertaken on behalf of the board and the associated remuneration.</p>	<p>A.1.1 The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. It is expected that such regular board meetings will normally involve the active participation, either in person or through other electronic means of communication, of a majority of directors entitled to be present. Accordingly, a regular meeting does not include the practice of obtaining board consent through the circulation of written resolutions.</p> <p>A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.(Code of Hong Kong)</p>
<p>Board Committees</p>	<p>52. The board of directors of a listed company may establish a corporate strategy committee, an audit committee, a nomination committee, a remuneration and appraisal committee and other special committees in accordance with the</p>	<p>VIE (1). The board may also consider establishing specific committees to consider questions where there is a potential for conflict of interest. These committees may require a minimum number or</p>	<p>A.1.8 If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee (except an appropriate board committee set</p>

	<p>resolutions of the shareholders' meetings. All committees shall be composed solely of directors. The audit committee, the nomination committee and the remuneration and appraisal committee shall be chaired by an independent director, and independent directors shall constitute the majority of the committees. At least one independent director from the audit committee shall be an accounting professional.</p> <p>53. The main duties of the corporate strategy committee shall be to conduct research and make recommendations on the long-term strategic development plans and major investment decisions of the company.</p> <p>54. The main duties of the audit committee are (1) to recommend the engagement or replacement of the company's external auditing institutions; (2) to review the internal audit system and its execution; (3) to oversee the interaction between the company's internal and external auditing institutions; (4) to inspect the company's financial information and its disclosure; and (5) to monitor the company's internal control system.</p> <p>55. The main duties of the nomination committee are (1) to formulate standards and procedures for the election of directors and make recommendations; (2) to extensively seek qualified candidates for directorship and management; and (3) to review the candidates for directorship and management and make recommendations.</p> <p>56. The main duties of the remuneration and appraisal committee are (1) to study the appraisal standard for</p>	<p>be composed entirely of non-executive members</p> <p>Ethic Committee and Audit Committee</p> <p>VC The audit committee or an equivalent body is often specified as providing oversight of the internal audit activities and should also be charged with overseeing the overall relationship with the external auditor including the nature of non-audit services provided by the auditor to the company. Provision of non-audit services by the external auditor to a company can significantly impair their independence and might involve them auditing their own work.</p> <p>VD The practice that external auditors are recommended by an independent audit committee of the board or an equivalent body and that external auditors are appointed either by that committee/body or by the shareholders' meeting directly can be regarded as good practice since it clarifies that the external auditor should be accountable to the shareholders.</p> <p>VID(6)The existence of a company code of ethics should aid this process which should be underpinned by legal protection for the individuals concerned. In a number of companies either the audit committee or an ethics committee is specified as the contact point for employees</p>	<p>up for that purpose pursuant to a resolution passed in a board meeting)</p> <p>Recommended Best Practices</p> <p>A.4.4 Issuers should establish a nomination committee. A majority of the members of the nomination committee should be independent nonexecutive directors.</p> <p>A.4.5 The nomination committee should be established with specific written terms of reference which deal clearly with the committee's authority and duties. It is recommended that the nomination committee should discharge the following duties:-</p> <ul style="list-style-type: none"> (a) review the structure, size and composition (including the skills, knowledge and experience) of the board on a regular basis and make recommendations to the board regarding any proposed changes; (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 relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer. <p>A.4.6 The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board.</p> <p>A.4.7 The nomination committee should be provided with sufficient resources to discharge its duties</p> <p>B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive</p>
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	<p>directors and management personnel, to conduct appraisal and to make recommendations; and (2) to study and review the remuneration policies and schemes for directors and senior management personnel.</p> <p>57. Each specialized committee may engage intermediary institutions to provide professional opinions, the relevant expenses to be borne by the company.</p> <p>58. Each specialized committee shall be accountable to the board of directors. All proposals by specialized committees shall be submitted to the board of directors for review and approval. (Code of China)</p>	<p>who wish to report concerns about unethical or illegal behaviour that might also compromise the integrity of financial statements.</p> <p>VID(7)One way of doing this is through an internal audit system directly reporting to the board. In some jurisdictions it is considered good practice for the internal auditors to report to an independent audit committee of the board or an equivalent body which is also responsible for managing the relationship with the external auditor, thereby allowing a coordinated response by the board. It should also be regarded as good practice for this committee, or equivalent body, to review and report to the board the most critical accounting policies which are the basis for financial reports.</p> <p>VIE(2)When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board. In order to evaluate the merits of board committees it is therefore important that the market receives a full and clear picture of their purpose, duties and composition.</p> <p>Remuneration Committee</p> <p>VIE (2) In order to evaluate the merits of board committees it is therefore important that</p>	<p>directors.</p> <p>B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.</p> <p>B.1.3 The terms of reference of the remuneration committee should include, as a minimum, the following specific duties: - (a) (b)(c)(d)(e)(f)</p> <p>B.1.4 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board</p> <p>C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.</p> <p>C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of 1 year commencing on the date of his ceasing: (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.</p> <p>C.3.3 The terms of reference of the audit committee should include at least the following duties:(a,b,c,d,f,g,e,f,g,h,i,j,k,l,m, n)</p> <p>C.3.4(audit committee) C3.5(audit committee) C3.6(audit committee)</p> <p>D.2.1 Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly</p>
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		<p>the market receives a full and clear picture of their purpose, duties and composition. Such information is particularly important in the increasing number of jurisdictions where boards are establishing independent audit committees with powers to oversee the relationship with the external auditor and to act in many cases independently. Other such committees include those dealing with nomination and compensation. The accountability of the rest of the board and the board as a whole should be clear. Disclosure should not extend to committees set up to deal with, for example, confidential commercial transactions</p> <p>VID(4)It is considered good practice in an increasing number of countries that remuneration policy and employment contracts for board members and key executives be handled by a special committee of the board comprising either wholly or a majority of independent directors. There are also calls for a remuneration committee that excludes executives that serve on each others' remuneration committees, which could lead to conflicts of interest.</p> <p>Nomination Committee</p> <p>IIC(3)With respect to nomination of</p>	<p>D.2.2 The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so. (Code of Hong Kong)</p>
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		<p>candidates, boards in many companies have established nomination committees to ensure proper compliance with established nomination procedures and to facilitate and coordinate the search for a balanced and qualified board. It is increasingly regarded as good practice in many countries for independent board members to have a key role on this committee. To further improve the selection process, the Principles also call for full disclosure of the experience and background of candidates for the board and the nomination process, which will allow an informed assessment of the abilities and suitability of each candidate.</p> <p>VIE (2) In order to evaluate the merits of board committees it is therefore important that the market receives a full and clear picture of their purpose, duties and composition.</p> <p>VID(5) First, while actual procedures for nomination may differ among countries, the board or a nomination committee has a special responsibility to make sure that established procedures are transparent and respected</p>	
Election of Directors	<p>Article 46 The terms of office of the directors shall be provided for in the articles of association, but each term of office shall not exceed 3 years. The directors may, after the expiry of their</p>	<p>IIC(3)With respect to nomination of candidates, boards in many companies have established nomination committees to ensure proper compliance with</p>	<p>A4 Principle There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for</p>

	<p>terms of office, hold a consecutive term upon re-election. (Company Law)</p> <p>28. A company shall establish a standardized and transparent procedure for director election in its articles of association, so as to ensure the openness, fairness, impartialness and independence of the election.</p> <p>29. Detailed information regarding the candidates for directorship shall be disclosed prior to the convening of the shareholders' meeting to ensure adequate understanding of the candidates by the shareholders at the time of voting.</p> <p>30. Candidates for directorship shall give written undertakings to accept their nomination, to warrant the truthfulness and completeness of the candidate's information that has been publicly disclosed and to promise to earnestly perform their duties once elected.</p> <p>31. The election of directors shall fully reflect the opinions of minority shareholders. A cumulative voting system shall be earnestly advanced in shareholders' meetings for the election of directors. Listed companies that are more than 30% owned by controlling shareholders shall adopt a cumulative voting system, and the companies that do adopt such a system shall stipulate the implementing rules for such cumulative voting system in their articles of association.</p> <p>51. Relevant laws and regulations shall be complied with for matters such as the qualifications, procedure of</p>	<p>established nomination procedures and to facilitate and coordinate the search for a balanced and qualified board. It is increasingly regarded as good practice in many countries for independent board members to have a key role on this committee. To further improve the selection process, the Principles also call for full disclosure of the experience and background of candidates for the board and the nomination process, which will allow an informed assessment of the abilities and suitability of each candidate.</p> <p>II G To overcome this asymmetry which favours diversification, they should be allowed, and even encouraged, to co-operate and co-ordinate their actions in nominating and electing board members, placing proposals on the agenda and holding discussions directly with a company in order to improve its corporate governance. More generally, shareholders should be allowed to communicate with each other without having to comply with the formalities of proxy solicitation.</p> <p>IIIA(2) Other common provisions to protect minority shareholders, which have proven effective, include preemptive rights in relation to share issues, qualified majorities for certain shareholder decisions and the</p>	<p>appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.</p> <p>A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election. <i>Note: Under paragraph 2(e) of Appendix 23, issuers must disclose the term of appointment of non-executive directors in the Corporate Governance Report.</i></p> <p>A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. <i>Notes: 1 The names of all directors submitted for election or re-election must be accompanied by the same biographical details as required for newly appointed directors set out in rule 13.51(2) (including other directorships held in listed public companies in the last three years and other major appointments) to enable shareholders to make an informed decision on their election.</i></p> <p>Recommended Best Practices</p> <p>A.4.3 Serving more than nine years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by shareholders. The board should set out to shareholders in the papers accompanying a resolution to elect such an independent non-executive director the reasons they believe that the individual continues to be independent and why he should be re-elected.</p> <p>A.4.4 Issuers should establish a nomination committee. A majority of the members of the</p>
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	<p>election and replacement, and duties of independent directors. (Code of China)</p>	<p>possibility to use cumulative voting in electing members of the board. VID (5) A formal and transparent board nomination and election process should be ensured. These Principles promote an active role for shareholders in the nomination and election of board members. The board has an essential role to play in ensuring that this and other aspects of the nominations and election process are respected. First, while actual procedures for nomination may differ among countries, the board or a nomination committee has a special responsibility to make sure that established procedures are transparent and respected. Second, the board has a key role in identifying potential members for the board with the appropriate knowledge, competencies and expertise to complement the existing skills of the board and thereby improve its value-adding potential for the company. In several countries there are calls for an open search process extending to abroad range of people.</p>	<p>nomination committee should be independent nonexecutive directors. (Code of Hong Kong)</p>
<p>Directors' responsibilities</p>	<p>33. Directors shall faithfully, honestly and diligently perform their duties for the best interests of the company and all the shareholders. 34. Directors shall ensure adequate time and energy for the performance of their duties.</p>		<p>A.5 Responsibilities of directors Principle. Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors</p>

<p>35. Directors shall attend the board of directors meetings in a diligent and responsible manner, and shall express their clear opinion on the topics discussed. When unable to attend a board of directors meeting, a director may authorize another director in writing to vote on his behalf and the director who makes such authorization shall be responsible for the vote.</p> <p>36. The board of directors shall abide by relevant laws, regulations, rules and the company's articles of association, and shall strictly fulfill the undertakings they made publicly.</p> <p>37. Directors shall earnestly attend relevant trainings to learn about the rights, obligations and duties of a director, to familiarize themselves with relevant laws and regulations and to master relevant knowledge necessary for acting as directors.</p> <p>38. In cases where the resolutions of board of directors violate laws or regulations or a listed company's articles of association and cause losses to the listed company, directors responsible for making such resolutions shall be liable for compensation, except those proved to have objected and the objections of whom have been recorded in the minutes.</p> <p>39. After approval by the shareholders' meeting, a listed company may purchase liability insurance for directors. Such insurance shall not cover the liabilities arising in connection with directors' violation of laws, regulations or the company's articles of association.(Code of China)</p>		<p>have the same duties of care and skill and fiduciary duties as executive directors</p> <p>A.5.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.</p> <p>A.5.2 The functions of non-executive directors should include but should not be limited to the following:</p> <p>(a) participating in board meetings of the issuer to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct; (b) taking the lead where potential conflicts of interests arise; (c) serving on the audit, remuneration, nomination and other governance committees, if invited; and (d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.</p> <p>A.5.3 Every director should ensure that he can give sufficient time and attention to the affairs of the issuer and should not accept the appointment if he cannot do so.</p> <p>A.5.4 Directors must comply with their obligations under the Model Code set out in Appendix 10 and, in addition, the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer. For this purpose, "relevant</p>
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	<p>Article 148 The directors, supervisors and senior managers shall comply with laws, administrative regulations and the articles of association. They shall bear the obligations of fidelity and diligence to the company. No director, supervisor or senior manager may take any bribe or other illegal gains by taking the advantage of his authorities, or encroach on the properties of the company.</p> <p>Article 150 Where any director, supervisor or senior manager violates laws, administrative regulations or the articles of association during the course of performing his duties, if any loss is caused to the company, he shall make compensation.</p> <p>Article 151 If the shareholder's meeting or shareholders' assembly demands a director, supervisor or senior manager to attend the meeting as a non-voting delegate, he shall do so and shall answer the shareholders' inquiries.</p> <p>The directors and senior managers shall faithfully offer relevant information and materials to the board of supervisors or the supervisor of the limited liability company with no board of supervisors, and none of them may obstruct the board of supervisors or supervisor from exercising its (his) authorities.(Company Law)</p>		<p>employee” includes any employee of the issuer or a director or employee of a subsidiary or holding company of the issuer who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the issuer or its securities.(Code of Hong Kong)</p>
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<p>Directors qualification and biography</p>	<p>91. A listed company shall disclose information regarding its corporate governance in accordance with laws, regulations and other relevant rules, including but not limited to: (1) the members and structure of the board of directors and the supervisory board; (2) the performance and evaluation of the board of directors and the supervisory board; (3) the performance and evaluation of the independent directors, including their attendance at board of directors' meetings, their issuance of independent opinions and their opinions regarding related party transactions and appointment and removal of directors and senior management personnel; (Code of Mainland China)</p> <p>Article 147 Anyone who is under any of the following circumstances shall not take the post of a director, supervisor or senior manager of a company:(1) Being without or with limited capacity of civil conduct;(2) He has been sentenced to any criminal penalty due to an offence of corruption, bribery, encroachment of property, misappropriation of property or disrupting the economic order of the socialist market economy and 5 years have not passed since the completion date of the execution of the penalty; or he has ever been deprived of his political rights due to any crime and 3 years have not passed since the completion date of the execution of the penalty;(3) Where he was a former director, factory director or manager of a company or enterprise which was</p>	<p>VA(4) Information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board to be disclosed. For board members, the information should include their qualifications, share ownership in the company, membership of other boards and whether they are considered by the board to be an independent member. it is important to disclose membership of other boards not only because it is an indication of experience and possible time pressures facing a member of the board, but also because it may reveal potential conflicts of interest and makes transparent the degree to which there are inter-locking boards.</p>	<p>155. Qualification of director(1)It shall be the duty of every director who is by the articles of the company required to hold a specified share qualification, and who is not already qualified, to obtain his qualification within 2 months after his appointment, or such shorter time as may be fixed by the articles.</p> <p>(2)For the purpose of any provision in the articles requiring a director to hold a specified share qualification, the bearer of a share warrant shall not be deemed to be the holder of the shares specified in the warrant.</p> <p>(3)The office of director of a company shall be vacated if the director does not within 2 months from the date of his appointment, or within such shorter time as may be fixed by the articles, obtain his qualification, or if after the expiration of the said period or shorter time he ceases at any time to hold his qualification.</p> <p>(4)A person vacating office under this section shall be incapable of being reappointed director of the company until he has obtained his qualification.</p> <p>(5)If after the expiration of the said period or shorter time any unqualified person acts as a director of the company, he shall be liable to a fine, and a daily fine for every day between the expiration of the said period or shorter time or the day on which he ceased to be qualified, as the case may be, and the last day on which it is proved that he acted as a director.(Hong Kong Companies Ordinance)</p> <p><i>A.4.2 Notes: 1 The names of all directors submitted for election or re-election must be accompanied by the same biographical details as required for newly appointed directors set out in rule 13.51(2) (including other directorships</i></p>
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	<p>bankrupt and liquidated, and was personally liable for the bankruptcy of such company or enterprise, three years have not passed since the date of completion of the bankruptcy and liquidation of the company or enterprise;(4) Where he was the legal representative of a company or enterprise, and the business license of this company or enterprise was revoked and this company or enterprise was ordered to close due to violation of the law, and he is personally liable for the revocation, three years have not passed since the date of the revocation of the business license thereof;(5) He has a relatively large amount of debt which is due but uncleared. (Company Law)</p>		<p><i>held in listed public companies in the last three years and other major appointments) to enable shareholders to make an informed decision on their election.(Code of Hong Kong)</i></p>
<p>Shareholder Protection</p>			
<p>Share classes</p>	<p>Article 104 When a shareholder attends the shareholders' assembly, he shall have one voting right for each share he holds. However, the company has no voting right for its own shares it holds.</p> <p>Article 127 The issuance of shares shall comply with the principle of fairness and impartiality, and the shares of the same class shall have the same rights and benefits. The shares issued at the same time shall be equal in price and shall be subject to the same conditions. The price of each share purchased by any organization or individual shall be the same.(Company Law)</p>	<p>IID Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed. Voting caps limit the number of votes that a shareholder may cast.</p> <p>IIIA All shareholders of the same series of a class should be treated equally. (1) All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in voting rights should be subject to approval by those classes of shares which are negatively affected. The Principles do not take a position on the</p>	<p>57A.(1)In the case of a company the share capital of which is divided into different classes of shares and includes a class of shares (other than preference or preferred shares so described) the holders of which are not entitled to vote at general meetings of the company, the descriptive title of the shares of that class shall include the words “non-voting” and those words shall appear legibly on any share certificate, prospectus or directors’ report issued by the company.</p> <p>(2)In the case of a company the share capital of which is divided into different classes of shares, every share certificate issued by the company shall contain in a prominent position a statement that its share capital is divided into different classes of shares; and such statement shall specify in respect of the shares of each class the nominal value thereof and the voting rights attached</p>

		<p>concept of “one share one vote”</p>	<p>thereto. 63A.(1) Where, in the case of a company the share capital of which is divided into different classes of shares, special rights are attached to any such class of shares otherwise than by the memorandum and the articles do not provide for the variation of those rights, the articles shall be deemed to contain provision that such rights shall not be varied except with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question or with the sanction of a special resolution passed at a separate general meeting of the holders of that class. (Hong Kong Companies Ordinance)</p>
<p>Minority shareholders’ interests</p>	<p>2. The corporate governance structure of a company shall ensure fair treatment toward all shareholders, especially minority shareholders. All shareholders are to enjoy equal rights and to bear the corresponding duties based on the shares they hold.</p> <p>31. The election of directors shall fully reflect the opinions of minority shareholders. A cumulative voting system shall be earnestly advanced in shareholders’ meetings for the election of directors. Listed companies that are more than 30% owned by controlling shareholders shall adopt a cumulative voting system, and the companies that do adopt such a system shall stipulate the implementing rules for such cumulative voting system in their articles of association.</p> <p>50. The independent directors shall bear the duties of good faith and due diligence toward the listed</p>	<p>II C(2) Shareholders should have the opportunity to ask questions to the board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations. This threshold should be determined taking into account the degree of ownership concentration, in order to ensure that minority shareholders are not effectively prevented from putting any items on the agenda. Shareholder resolutions that are approved and fall within the competence of the shareholders’ meeting should be addressed by the board.</p> <p>III The confidence of minority investors is enhanced when the legal system provides</p>	<p>A.4.8 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 why they believe the individual should be elected and the reasons why they consider the individual to be independent. (Code of Hong Kong)</p> <p>Disciplinary Procedures CH 2 2A.09 In addition to its powers to suspend or cancel a listing, if the Listing Committee finds there has been a breach by any of the parties named in rule 2A.10 of the Exchange Listing Rules it may:— require a breach to be rectified or other remedial action to be taken within a stipulated period including, if appropriate, the appointment of an independent adviser to minority shareholders;</p> <p>Ch15 3(d) The Listing Committee must be satisfied that ongoing and future connected transactions between the Parent and Newco would be properly transacted</p>

	<p>company and all the shareholders. They shall earnestly perform their duties in accordance with laws, regulations and the company's articles of association, shall protect the overall interests of the company, and shall be especially concerned with protecting the interests of minority shareholders from being infringed. Independent directors shall carry out their duties independently and shall not subject themselves to the influence of the company's major shareholders, actual controllers, or other entities or persons who are interested parties of the listed company.(Code of China).</p>	<p>mechanisms for minority shareholders to bring lawsuits when they have reasonable grounds to believe that their rights have been violated. The provision of such enforcement mechanisms is a key responsibility of legislators and regulators.</p> <p>III A(2).Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.</p> <p>VI E The board should be able to exercise objective independent judgement on corporate affairs. The manner in which board objectivity might be underpinned also depends on the ownership structure of the company. A dominant shareholder has considerable powers to appoint the board and the management. However, in this case, the board still has a fiduciary responsibility to the company and to all shareholders including minority shareholders. In others, independence from controlling shareholders or another controlling body will need to be emphasized, in particular if the <i>ex ante</i> rights of minority shareholders are weak and opportunities to obtain redress are limited.</p>	<p>under Chapter 14A of the Exchange Listing Rules and/or waivers thereunder and, in particular, that the ongoing relationship would not, in the context of any waivers granted, be unduly artificial or difficult to monitor from the perspective of safeguarding the interests of the respective minority shareholders of the Parent and of Newco.</p> <p>Ch15 3(f) <i>Assured entitlement to shares in Newco</i> The Listing Committee expects the Parent to have due regard to the interests of its existing shareholders by providing them with an assured entitlement to shares in Newco, either by way of a distribution in specie of existing shares in Newco or by way of preferred application in any offering of existing or new shares in Newco. The percentage of shares in Newco allocated to the assured entitlement tranche would be determined by the directors of the Parent and by its advisers, and all shareholders of the Parent would be treated equally. Further, the minority shareholders of the Parent may by resolution in general meeting resolve to waive the assured entitlement, even where Newco is to be listed in Hong Kong (Hong Kong Main Board Listing Rules)</p>
<p>Participation and voting in</p>	<p>5. A listed company shall set out convening and voting</p>	<p>II A(4) basic shareholder rights</p>	<p>E.1 Effective communication Principle</p>

<p>General Meetings</p>	<p>procedures for shareholders' meetings in its articles of association, including rules governing such matters as notification, registration, review of proposals, voting, counting of votes, announcement of voting results, formulation of resolutions, recording of minutes and signatories, public announcement, etc.</p> <p>8. Besides ensuring that shareholders' meetings proceed legally and effectively, a listed company shall make every effort, including fully utilizing modern information technology means, to increase the number of shareholders attending the shareholders' meetings. The time and location of the shareholders' meetings shall be set so as to allow the maximum number of shareholders to participate.</p> <p>9. The shareholders can either be present at the shareholders' meetings in person or they may appoint a proxy to vote on their behalf, and both means of voting possess the same legal effect.</p> <p>10. The board of directors, independent directors and qualified shareholders of a listed company may solicit for the shareholders' right to vote in a shareholders' meeting. No payments shall be made to the shareholders for such solicitation, and adequate information shall be provided to persons whose voting rights are being solicited.(Code of China)</p>	<p>should include the right to participate and vote in general shareholder meetings</p> <p>HC(1,2,3,4)Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures, that govern general shareholder meetings:</p> <p>1. Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.</p> <p>2. Shareholders should have the opportunity to ask questions to the board, including questions relating to the annual external audit, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.</p> <p>3. Effective shareholder participation in key corporate governance decisions, such as the nomination and election of board members, should be facilitated. Shareholders should be able to make their views known on the remuneration policy for board members and key executives. The equity component of compensation schemes for board members and employees should be subject to shareholder</p>	<p>The board should endeavor to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.</p> <p>E.2 Voting by Poll Principle</p> <p>The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Exchange Listing Rules and the constitutional documents of the issuer.</p> <p>E.2.1 The chairman of a meeting should ensure disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in rule 13.39(4). In particular, pursuant to rule 13.39(3), the chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.</p> <p>E.2.2 The issuer should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The issuer should ensure that votes cast are properly counted and recorded.</p>
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		<p>approval.</p> <p>4. Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.</p>	<p>(Code of Hong Kong)</p>
<p>Proxy voting arrangement</p>	<p>9. The shareholders can either be present at the shareholders' meetings in person or they may appoint a proxy to vote on their behalf, and both means of voting possess the same legal effect.(Code of China)</p> <p>Article 107 A shareholder may entrust an agent to attend a shareholders' assembly. The agent shall present a power of attorney issued by the shareholder to the company, and shall exercise his voting rights within the authorization scope.</p> <p>(Company Law).</p>	<p>II C(4) Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia. (IT voting) also consider cross border voters</p> <p>IIIA(3) Votes should be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.</p> <p>IIIA(4) Impediments to cross border voting should be eliminated.</p>	<p>114C.(1) Subject to subsection (1A), any member of a company entitled to attend and vote at a meeting of the company shall be entitled to appoint another person (whether a member or not) as his proxy to attend and vote instead of him, and a proxy so appointed shall also have the same right as the member to speak at the meeting.</p> <p>(1A) Unless the articles otherwise provide-</p> <p>(a) a proxy shall not be entitled to vote except on a poll; and</p> <p>(b) subsection (1) shall not apply in the case of a company not having a share capital.</p> <p>(2) The right of a member of a company having a share capital to appoint a proxy shall include the right to appoint separate proxies to represent respectively such number of the shares held by him as may be specified in their instruments of appointment; but (without prejudice to the appointment of alternates) the number of proxies so appointed by any person to attend on the same occasion shall not, unless the articles otherwise provide, exceed 2.</p> <p>(3) In every notice calling a meeting of a company having a share capital there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint a proxy or, where that is allowed, 1 or more proxies to attend and vote instead of him, and that a proxy need not also be a member; and if default is made in complying with this subsection as respects any meeting, every</p>

			<p>officer of the company who is in default shall be liable to a fine.(Hong Kong Companies Ordinance)</p>
<p>Right and ownership threshold to call Extra General Meeting</p>	<p>Article44 The discussion methods and voting procedures of the shareholders' meeting shall be prescribed in the articles of association, unless it is otherwise provided for by this Law. A resolution made at a shareholders' meeting on amending the articles of association, increasing or reducing the registered capital, merger, division, dissolution or change of the company type shall be adopted by the shareholders representing 2 / 3 or more of the voting rights.</p> <p>Article 101 An annual session of the shareholders' assembly shall be held each year. Under any of the following circumstances, a temporary shareholders' assembly shall be held within 2 months:(1) The number of directors is less than two-thirds of the number of directors as required by this Law or the number of directors as prescribed in the articles of association;(2) The unrecovered losses of the company reach one-third of the total pain-up capital;(3) At the request of the shareholders separately or aggregately holding 10% or more of the company's shares;(4) The board of directors deems it necessary;(5) At the request of the board of supervisors; and (6) Other circumstances as prescribed in the articles of association.(Company Law)</p>		<p>113.(1) The directors of a company, notwithstanding anything in its articles shall, on the requisition of members of the company holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the company, or, in the case of a company not having a share capital, members of the company representing not less than one-twentieth of the total voting rights of all the members having at the said date a right to vote at general meetings of the company, forthwith proceed duly to convene an extraordinary general meeting of the company.</p> <p>(2) The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the company, and may consist of several documents in like form, each signed by one or more requisitionists.</p> <p>(3) If the directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date.</p> <p>(4) A meeting convened under this section by the requisitionists shall be convened in the same manner, as nearly as possible, as</p>

			<p>that in which meetings are to be convened by directors.</p> <p>(5) Any reasonable expenses incurred by the requisitionists by reason of the failure of the directors duly to convene a meeting shall be repaid to the requisitionists by the company, and any sum so repaid shall be retained by the company out of any sums due or to become due from the company by way of fees or other remuneration in respect of their services to such of the directors as were in default. (Hong Kong Companies Ordinance)</p>
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Appendix 2 Company-level Matrix in Mainland China

	Baosteel	Minmetals	Saic Motor	CIMC
Ownership Structure				
Directors/ Executive Shareholding	0.0005%	0.013%	0.0006%	0.03%
Top 10 shareholders	77.30%	66.26%	87.73%	54.45%
Shareholding categories	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Board Composition and Effectiveness				
Board Size	15	16	14	11
Chairman/ CEO Separation	Yes	Yes	Yes	Yes
Non-Executive Directors	7	9	10	6
Multiple board memberships	Disclosed	Disclosed	Not disclosed	Disclosed
Meetings (BOD)and Attendance of Directors	6meetings,90%	8meetings,100%	8 meetings,100%	16meetings,100 %

Board Committees	3	4	3	3
Percentage of independent non-executive directors on committees	1/7 on Strategic ;3/4 on Audit ;3/4 on Remuneration& Appraisal Committee	Not disclosed	Not disclosed	Not disclosed
Directors qualification and Biography	Disclosed	Disclosed	Disclosed	Disclosed
Directors' responsibilities	Disclosed	Disclosed	Disclosed	Disclosed
Shareholder Protection				
Share classes	Single	Single	Single	Dual Class
Board representation of Minority shareholders	Not disclosed	Not disclosed	Not disclosed	Not disclosed
Request for Extra General Meeting	Yes (Once)	Not disclosed	Yes (Once)	Yes (Twice)

Appendix 3 Company-level Matrix in Hong Kong

	Hutchison Whampoa	Cathay Pacific Group	SUN HUNG KAI	CLP Holding
Ownership Structure				
Directors/ Executive Shareholding	52.29%	0.039%	44.80%	42.54%
Top 10 shareholders	84.78%(Top 9)	71.96 % (Top 4)	86.78% (Top 3)	56.94%
Shareholding Categories	Not disclosed	Not disclosed	Not disclosed	Disclosed
Board Composition and Effectiveness				

Chairman/ CEO Separation	Separate	Separate	Separate	Separate
Board Size	14	17	19	19
Non-Executive Directors	7 including 5 independent	12 including 4 independent	10 including 4 independent	16 including 7 independent
Multiple board memberships	Not disclosed	Not disclosed	Disclosed	Disclosed
Meetings and Attendance of Directors	4 meetings,100%	6meetings , 75%	4 meetings,84%	6meetings, 92.1%
Directors' Responsibilities	Disclosed	Disclosed	Disclosed	Disclosed
Directors Qualification and Biography	Disclosed personal info and background	Disclosed personal info and background	Disclosed personal info and background	Disclosed personal info and background
Board Committees	2:Audit Committee and Remuneration Committee	5: Board Safety Review; Executive; Finance; Remuneration ; and Audit Committee	4 :Audit, Remuneration, Executive, Nomination Committee	7 :Audit; Finance & General ;Human Resources& Remuneration; Provident& Retirement Fund; Sustainability; China and Nomination Committee
Percentage of independent non-executive directors on committees	2/3 on Audit; 2/3 on Remuneration Committee	1/8 on Safety Review; none on Executive; none on Finance; 2/3 on Remuneration; 3/4 on Audit Committee	None on Executive; majority on Remuneration; majority on Nomination; all on Audit Committee	2/3 on Nomination; 1/3 on Sustainability; none on Provident & Retirement Fund; 3/11 on Finance & General;3/4 on Human Resources & Remuneration, not disclosed on China and all on Audit Committee
Shareholder Protection				
Share classes	Dual(Ordinary and preference)	Single(Ordinary)	Single(Ordinary)	Single(Ordinary)
Board representation of Minority shareholders	Not disclosed	Not disclosed	Not disclosed	Not disclosed

Request for Extra General Meeting	Yes (Once)	Yes (None)	Yes (Once)	Yes (None)
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