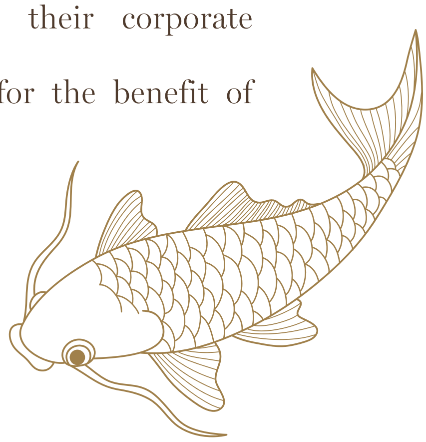
Introduction

The main aim of this guide, ***A Guide on Better Corporate Governance Disclosure***, is to encourage meaningful corporate governance disclosures by Hong Kong-listed companies, under the revised Corporate Governance Code of the stock exchange listing rules ("revised Code")[1], which took effect in 2012. It may also be of value to other companies and organisations that wish to enhance their corporate governance disclosures for the benefit of their stakeholders.



[1] Appendix 14 to the Main Board and Appendix 15 to the Growth Enterprise Market listing rules

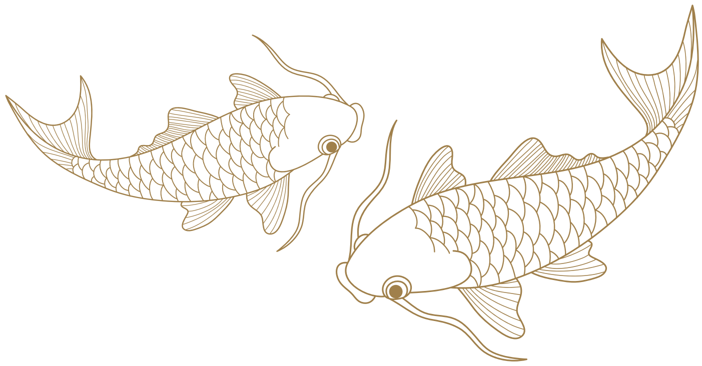
Background

The Hong Kong Institute of CPAs ("Institute") has been a prime mover in advocating good corporate governance in Hong Kong for the past two decades. The Institute has always believed that sound, well-organised and well-regulated markets and good corporate governance are vital ingredients in Hong Kong's success as a financial centre and will remain so in the future.

Between 1995 and 2008, the Institute published a series of corporate governance guides and surveys on a range of important topics, including audit committees, directors' remuneration, internal control and risk management and public sector governance. In 2000, the Institute expanded its work in this area by establishing the Best Corporate Governance Disclosure Awards, to promote awareness of good corporate governance and to give recognition to exemplars of best practice in the Hong Kong market.

One of the Institute's main corporate governance guides, published in 2001, *Corporate Governance Disclosure in Annual Reports - A guide to current requirements and recommendations for enhancement* ("2001 guide") reviewed disclosure in annual reports, setting out the requirements applicable at that time and making a number of recommendations for strengthening corporate governance disclosure. This was a forward-looking document, containing, as its core recommendation for enhancement, a proposal that listed and public companies be encouraged to include a statement on corporate governance in their annual reports. The inclusion of such a statement is now seen as a basic requirement of good governance. Part of the preamble to the 2001 guide bears repeating, remaining as true today as it was then:

A strong disclosure regime is a pivotal feature of market-based monitoring of corporate conduct and is central to the ability of shareholders to exercise their voting rights effectively. Experience in countries with large and active equity markets shows that disclosure can also be a powerful tool for influencing the behaviour of companies and for protecting investors. A strong disclosure regime can help to attract capital and maintain confidence in capital markets. Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting of shares. Insufficient or



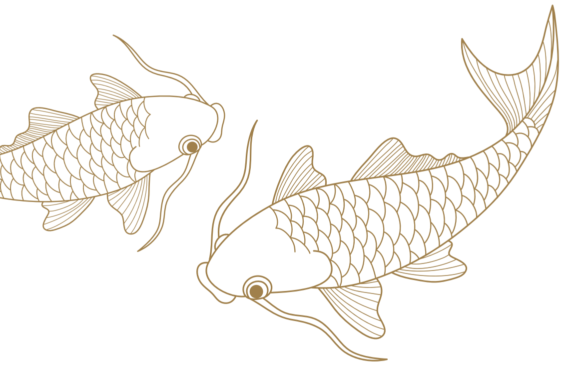
unclear information may hamper the ability of markets to function, may increase the cost of capital and result in a poor allocation of resources.

Disclosure also helps improve public understanding of the structure and activities of companies, their policies and performance with respect to environmental and ethical standards and their relationships with the communities in which they operate.

At the time of the publication of the 2001 guide, mandatory corporate governance disclosures in Hong Kong were quite limited. The Code of Best Practice at Appendix 14 of the listing rules was a sparse document by today's standards. In 2004, it was replaced by a much more substantial Code on Corporate Governance Practices and set of disclosure requirements in the Corporate Governance Report ("CGR"). Listed companies were expected to apply the "provisions" of the 2004 Code on a "comply or explain" basis. The Code also contained "principles", setting out the underlying aims of each main section, and recommended best practices ("RBPs"), compliance with which was entirely voluntary. The CGR, meanwhile, contained mandatory and recommended disclosures. This framework took effect, for new accounting periods, as from 1 January 2005, except for the Code provisions and disclosures relating to internal control, which became effective as from 1 July 2005. During the intervening period, the Institute published guidance on internal control, at the invitation of the Hong Kong Stock Exchange.

In 2011, the 2004 framework underwent another substantial review, consultation and revision, in the light of developments over the previous seven years. As a result of this exercise, a number of RBPs were elevated into Code provisions and some provisions became listing rules. The Code and the CGR were also combined into a single, expanded revised Code. Other than the new listing rule requirement that independent non-executive directors must form at least one third of the board, for which the deadline was 31 December 2012, the changes contained in the revised Code were implemented, on either 1 January or 1 April 2012.

Notwithstanding the development over the years of a much more extensive framework of rules, requirements and recommendations, the Institute's professional accountants in business leadership panel ("PAIBLP") perceived there to be scope to produce additional guidance for listed companies,



to discourage a "box ticking" approach and to encourage more meaningful disclosure in annual reports. The PAIBLP set up a corporate governance working group with members from diverse backgrounds to develop suitable guidance.

Some elements of the revised Code are fairly straightforward and need no further explanation, such as disclosure of the number of board and committee meetings held during the year and directors' attendance records. However, other important areas are not as self-explanatory, such as the requirement for an annual review of internal controls to be conducted and how this should be implemented. The purpose of this guide is to help bridge that gap. As first step, we believe that helping preparers to appreciate the underlying rationale of the Code principles and provisions would encourage more informative and useful disclosure, which can be achieved without having to divulge commercially-sensitive information. The guide seeks to identify and summarise the key points through a series of themes. It also uses real examples, extracted from annual reports, including some from award winners in the Institute's Best Corporate Governance Disclosure Awards, to illustrate and give life to the issues.

The guide focuses on significant areas of the revised Code, where, we believe, more meaningful disclosure would be welcomed by investors and other stakeholders. The areas covered, initially, are the (i) board, (ii) internal controls, (iii) audit committee and (iv) communication with shareholders. This is not intended to be a static, one-off exercise but, rather, something that can be further expanded and refined over time.

Enhancing corporate governance disclosure is a continuing and interactive process. In preparing this guide, feedback was sought from annual report preparers, as well as users such as investors, independent directors, listed company management, auditors and consultants. We are grateful for their perspectives.

We hope that this guide will provide a useful, practical tool for, members of the Institute who have responsibilities for corporate governance within their companies, and also for the boards and managements of companies which seek to maintain high standards of corporate governance disclosures or to improve their disclosures.

The Institute welcomes further feedback and suggestions in relation to this guide. Please send any views to hkicpa@hkicpa.org.hk.