

For Immediate Release

To: Assignment Editor/Editor of Education, Local News, Finance and Business Sections

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Independent Non-Executive Directors (INEDs) Effectiveness Survey 2023

The Hong Kong Independent Non-Executive Director Association (HKiNEDA), the Department of Accountancy of The Hang Seng University of Hong Kong (HSUHK) and PRO'8 Consultants Limited jointly announced today the findings and recommendations of the Independent Non-Executive Directors (INEDs) Effectiveness Survey 2023 (the "Survey").

The Survey was conducted in order to gather market information for HKiNEDA to better understand corporate governance in action in Hong Kong such that the INEDs profession, which is the cornerstone of corporate governance in Hong Kong, can make more effective contributions.

The Survey focused on various dimensions of corporate governance in practice by companies listed in Hong Kong, including:

- Establishing policies and procedures regarding appointment of directors.
- Directors' understanding of corporate strategies.
- Directors' commitment to discharge of their fiduciary duties.
- Accountability to and assuring proper communications with stakeholders.
- Documentation and implementation of risk management system.
- Sound internal control mechanisms in place and being constantly reviewed.
- Management being vigilant and alert to any environmental issue.
- Plans to ensure ongoing financial performance and long-term financial viability.
- Relevant human resource policies being in place to attain fairness in employee compensation; and
- Effective anti-money laundering, anti-corruption, data privacy and competition policies and procedures in place.

140 valid responses were received from fellow professional directors, including Executive Directors (EDs) and Independent Non-Executive Directors, which is similar to the number of responses received when we conducted our first INEDs survey study on INEDs' effectiveness in Hong Kong in 2022.

The following are the main findings of our survey:

1. Overall, across different issuers, there is no major difference in perception of level of corporate governance between EDs and INEDs. This result certainly does not come with surprise, as EDs and INEDs should be on the same page with the common goal in mind for good corporate governance of issuers, including the protection of minority shareholders and other stakeholders.
2. INEDs serving Main Board issuers perceived lower level of corporate governance than their ED counterparts. This seems a reasonable finding, since INEDs receive much less information about the company they serve. In addition, a possible explanation could be the INEDs acknowledging their professional risk exposure with Main Board issuers,

and thus maintaining their professional scepticism in discharging their duties.

3. Results indicate that INEDs of issuers of relatively large market capitalisation with market value of HKD10 billion or above perceived a higher level of corporate governance than INEDs of issuers with small market capitalisation. This also seems a reasonable finding, since issuers with large market capitalisation would be better equipped with means and resources for compliance with corporate governance provisions.
4. We found no major difference in perception of corporate governance between INEDs of GEM Board issuers and those serving Main Board issuers. Moreover, INEDs serving GEM Board issuers perceived higher level of corporate governance than their ED counterparts in GEM Board companies. This result sounds a bit surprising. With the notion that GEM Board issuers in general relative to Main Board issuers lack the means for compliance with corporate governance provisions, and that EDs should know better of the company's level of corporate governance than INEDs, the insignificant difference in perception of corporate governance between INEDs of Main Board and GEM Board issuers seems to call for further examination. One plausible explanation is perhaps the perception by INEDs of the general notion that the extent of ownership and management overlap is higher in GEM Board issuers than Main Board issuers, such that they perceive lower risk exposure in terms of potential conflict of interest between shareholders and other stakeholders of the issuer based on the decisions made by management. It is also specifically recognised though that perhaps there is not much resource for GEM Board issuers, resulting in lower fees for the services of INEDs than Main Board issuers, which might have reduced motivation for INEDs to spend too much time in the issuer's affairs.
5. We also found that in general, INEDs who took part in this year's Survey perceived better in the following corporate governance areas than those in 2022:
 - The issuer's documentation of policies and procedures in appointment of directors to the board being properly followed.
 - Effective corporate strategy being formulated by the issuer and well understood by executives.
 - Risk management system of the issuer being well thought through, documented and implemented.

Based on the findings the Survey, we have the following recommendations. We also wish to reiterate some of our recommendations from the 2022 INEDs Effectiveness Survey we conducted in 2023:

- A. Regardless of fees, INEDs, particularly those serving GEM Board issuers, may need to invest more time in the company affairs to really get to the bottom of the matters involved regarding corporate governance.
- B. Roles and responsibilities imposed on INEDs have been increased as a result of the surge in reporting requirements. We recommend that issuers should review on a regular basis the fees for INEDs which should adequately reflect the roles and responsibilities the INEDs carry. One such reporting requirement that stands out is the enhancement of climate-related disclosures and forthcoming sustainability standards. As discussed in our 2022 INEDs Effectiveness Survey, we recommended that setting up an

Environmental, Social and Governance (ESG) Committee should be a mandatory requirement under the Listing Rules of the Stock Exchange of Hong Kong (“SEHK”).

- C. In our 2022 INEDs Effectiveness Survey we raised the concern about the workload of INEDs particularly for those INEDs serving certain sizeable issuers or issuers of certain industries. At times, such workloads are so heavy that INEDs would not have sufficient time to adequately discharge their duties, which would somehow impact their perception of the level of corporate governance of those issuers. We recommended that the number of INEDs serving those issuers should be increased to relieve their volume of work at hand. In addition, we note that at the moment, the Listing Rules of SEHK only require an issuer to arrange appropriate insurance for its directors or explain in its annual reports why it had not done so. As a measure to provide adequate protection to INEDs in their uphold of corporate governance of issuers in light of the ever-increasing workload they carry, we also recommended that Directors and Officers (D&O) insurance should become a mandatory requirement for all issuers under the Listing Rules of the SEHK.
- D. Also stated in the recommendations in our 2022 INEDs Effectiveness Survey is our emphasis regarding the importance of professional development for INEDs to equip themselves with due care, skills and diligence to discharge their fiduciary duties, particularly for less experienced INEDs. We recommended that a minimum standard number of Continuous Professional Development (CPD) hours for every two to three years should be required for all INEDs.
- E. Finally, we also wish to reiterate the finding in our INEDs Effectiveness Survey 2022 regarding better understanding by ED of issuers of the roles of INEDs in the maintenance of good corporate governance practice. We recommended that communications between INEDs and ED of issuers should be enhanced so that Eds would duly understand the tasks at the hands of INEDs and be able to allocate

Professor Simon S M Ho, Advisor to the Project Team and President of The Hang Seng University of Hong Kong, remarked that this second INED Effectiveness Survey provides very valuable insights into the perceived standard and concerns of corporate governance by INEDs. Especially it compares INEDs’ views between different types of issuers. It shows which governance areas Hong Kong has improved over the last few years and which areas we still need to work much harder to enhance the performance of INEDs.

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