



March 2023

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The journal of the Hong Kong  
Chartered Governance Institute  
香港公司治理公會會刊

# Succession planning

## The strategic approach

Director training

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Guidance update



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**Labuan IBFC Inc. Sdn. Bhd. (817593-D)**

Suite 3A-2, Level 2, Block 3A,  
Plaza Sentral, Jalan Stesen Sentral,  
KL Sentral, 50470 Kuala Lumpur, Malaysia

Tel: +603 2773 8977  @LabuanIBFC  
Fax: +603 2780 2077  
Email: [info@LIBFC.com](mailto:info@LIBFC.com)  Labuan IBFC

[www.LABUANIBFC.com](http://www.LABUANIBFC.com)

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The Hong Kong Chartered Governance Institute (HKCGI, the Institute) is an independent professional body dedicated to the promotion of its members' role in the formulation and effective implementation of good governance policies, as well as the development of the profession of the Chartered Secretary and Chartered Governance Professional in Hong Kong and the mainland of China (the Mainland).

The Institute was first established in 1949 as an association of Hong Kong members of The Chartered Governance Institute (CGI). In 1994 the Institute became CGI's Hong Kong Division and, since 2005, has been CGI's Hong Kong/China Division.

The Institute is a founder member of Corporate Secretaries International Association Ltd (CSIA), which was established in March 2010 in Geneva, Switzerland. Relocated to Hong Kong in 2017, where it operates as a company limited by guarantee, CSIA aims to give a global voice to corporate secretaries and governance professionals.

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### The Hong Kong Chartered Governance Institute

(Incorporated in Hong Kong with limited liability by guarantee)

3/F, Hong Kong Diamond Exchange Building,  
 8 Duddell Street, Central, Hong Kong

Tel: (852) 2881 6177 Fax: (852) 2881 5050

Email: ask@hkcg.org.hk (general)

cpd@hkcg.org.hk (professional development)

member@hkcg.org.hk (member)

student@hkcg.org.hk (student)

Website: www.hkcg.org.hk

### Beijing Representative Office

Room 1220, Jinyu Tower,  
 No 129, Xuanwumen West Street,  
 Xicheng District, Beijing, 100031, PRC

Tel: (86) 10 6641 9368/6641 9190

Email: bro@hkcg.org.hk

Website: www.hkcg.org.cn

## The Chartered Governance Institute

**The Chartered Governance Institute**  
 c/o MCI UK  
 Building 1000, Western Road  
 Portsmouth, Hampshire PO6 3EZ  
 United Kingdom  
 Tel: (44) 1730 715 226

**MAICSA**  
 No 57 The Boulevard  
 Mid Valley City  
 Lingkaran Syed Putra  
 59200 Kuala Lumpur  
 Malaysia  
 Tel: (60) 3 2282 9276  
 Fax: (60) 3 2282 9281

**Chartered Governance Institute of Southern Africa**  
 PO Box 3146  
 Houghton 2041  
 Republic of South Africa  
 Tel: (27) 11 551 4000  
 Fax: (27) 11 551 4027

**Governance Institute of Australia**  
 Level 11, 10 Carrington Street  
 Sydney, NSW 2000  
 Australia  
 Tel: 1800 251 849

**Governance New Zealand**  
 PO Box 444  
 Shortland Street  
 Auckland 1140  
 New Zealand  
 Tel: (64) 9 377 0130

**The Chartered Governance Institute UK & Ireland**  
 Saffron House, 6–10 Kirby Street  
 London EC1N 8TS  
 United Kingdom  
 Tel: (44) 20 7580 4741

**The Chartered Governance Institute of Canada**  
 1568 Merivale Road, Suite 739  
 Ottawa, ON Canada K2G 5Y7  
 Tel: (1) 613 595 1151  
 Fax: (1) 613 595 1155

**SAICSA**  
 149 Rochor Road  
 #04–05 Fu Lu Shou Complex  
 Singapore 188425  
 Tel: (65) 6334 4302  
 Fax: (65) 6334 4669

**Chartered Governance and Accountancy Institute in Zimbabwe**  
 Cnr 3rd St & Nelson Mandela  
 PO Box 2417  
 Zimbabwe  
 Tel: (263) 242 707582/3/5/6

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### Editorial Board

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### Contributors to this edition

<b>Neil Waters</b> Egon Zehnder Hong Kong	<b>Benran Huang</b> Moge Chen
<b>Agnes KY Tai</b> Great Glory Investment Corporation	<b>Alex Guo</b> Zhao Sheng Law Firm
<b>Winona Lau</b> CUHK	
<b>Yvonne Lau</b> HKU	

### Advertising sales enquiries

Ninehills Media Ltd  
 Tel: (852) 3796 3060  
**Jennifer Luk**  
 Email: jennifer@ninehillsmedia.com  
**Frank Paul**  
 Email: frank@ninehillsmedia.com

### Ninehills Media Ltd

12/F, Infinitus Plaza  
 199 Des Voeux Road  
 Sheung Wan  
 Hong Kong  
 Tel: (852) 3796 3060  
 Fax: (852) 3020 7442  
 www.ninehillsmedia.com  
 Email: enquiries@ninehillsmedia.com  
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## Board renewal

One of the things that Covid-19 demonstrated was that having an effective board is an essential prerequisite for surviving a major crisis. With no shortage of those on the horizon, organisations able to build and maintain boards with diverse talents, skills and perspectives will be better positioned to survive and thrive in the years ahead.

This edition of your journal is all about board effectiveness. Our cover story this month looks at a relatively neglected aspect of this issue – succession planning. Like many aspects of corporate governance, there is more to this issue than meets the eye.

The common assumption seems to be that succession planning is primarily a practical matter, but our cover story emphasises that this is not just about being ready to replace directors when their terms expire. Done well, it is more about developing an understanding of the present and future challenges the organisation needs to address, and the sorts of skills and personal characteristics the organisation's directors will need to successfully navigate those challenges.

Put simply, while board renewal can be a practical challenge, particularly when a director's departure is unexpected, it is also an opportunity. A sound long-

term strategy for board succession will be constantly addressing the gaps in board expertise, planning for the future and seeking to improve the board's diversity profile. Long-term strategy is, after all, where a good board adds value. While management needs to focus on day-to-day operations, directors need to focus on the medium- and long-term risks and opportunities of the changing operating environment.

I hardly need to add that this task will continue to be complex and critical to the survival of organisations in the medium and long term. There is no quick fix to the multitude of new risks that boards have to address – from cybersecurity and data privacy to ESG performance and reporting – so directors, more than ever, need to have an understanding of the big picture.

This month's first In Focus article shares insights on this related aspect of board effectiveness. As I mentioned in my message last month, our Institute has launched a new series of training sessions, in collaboration with Hong Kong Exchanges and Clearing Ltd, to broaden awareness and understanding of directors' duties, especially those of independent non-executive directors (INEDs). The In Focus article highlights the key takeaways from the first session of this series.

Regulators are stepping up their enforcement in respect of breaches of directors' duties and the first training session set out to explain the current and impending regulatory expectations relating to those duties. It also addressed related issues such as the board's collective responsibility, board independence, the roles and liabilities of INEDs, board diversity, and the importance of board oversight of ESG and sustainability matters.

If you haven't already done so, I recommend you sign up for the third and final session in this training series to be held on 17 March. Moreover, look out for future training series on this and related themes. Rest assured, our Institute will continue to play a role, both via its thought leadership publications and CPD training, in supporting board effectiveness.

A handwritten signature in black ink, appearing to read 'Ernest Lee'. The signature is fluid and cursive.

Ernest Lee FCG HKFCG(PE)

# 董事会继任计划

**新**冠疫情让人们意识到，拥有一个有效的董事会是在重大危机中幸存下来的一个重要前提。类似危机随时可能出现，一个组织如果能够建立和维持拥有不同才能、技能和观点的董事会，将会在未来更好地生存和发展。

本期会刊是关于董事会的治理效率这一议题。本月的封面故事探讨了此议题中一个相对被忽视的方面--继任计划。就像公司治理的许多方面一样，这个问题远超所见。

人们普遍认为，继任计划主要是一个实操问题，但本期的封面故事(Cover Story)强调，这不仅仅是在董事任期届满时做好替换准备。如果继任计划做得好的话，该项工作将更多的推动了解组织需要应对的当前和未来的挑战，以及董事为成功应对这些挑战所需要具备的各种技能和个人特征。

简而言之，虽然董事会更换董事可能是一个实操方面的挑战，特别是当董事的离开是意料之外，但它也是一个机会。董事会关于继任方面的一个健全的长期战略将不断解决董事会专业知识方面的差距，规划未来，并寻求改善董事会的多样性状况。毕竟，长期战略是一个优秀的董事会能为企业增加价值的重要方面。当管理层需要关注日常运营时，董

事们需要关注不断变化的运营环境的中长期风险和机会。

无庸赘述，这项工作将继续是复杂的且对组织的中期和长期生存至关重要。对于董事会必须应对的众多新风险，从网络安全和数据隐私到ESG绩效和报告，没有快速的解决办法，因此董事比以往任何时候都需要对大局有所了解。

本月焦点(In Focus)栏目的第一篇文章分享了关于董事会有效性这一相关方面的见解。正如本人在上个月的寄语(President's Message)中所提到，公会与香港交易及结算有限公司合作，推出了一系列新的培训课程，以提升人们对董事，特别是独立非执行董事职责的认识和理解。该焦点栏目文章重点介绍了该系列培训的第一期课程的主要内容。

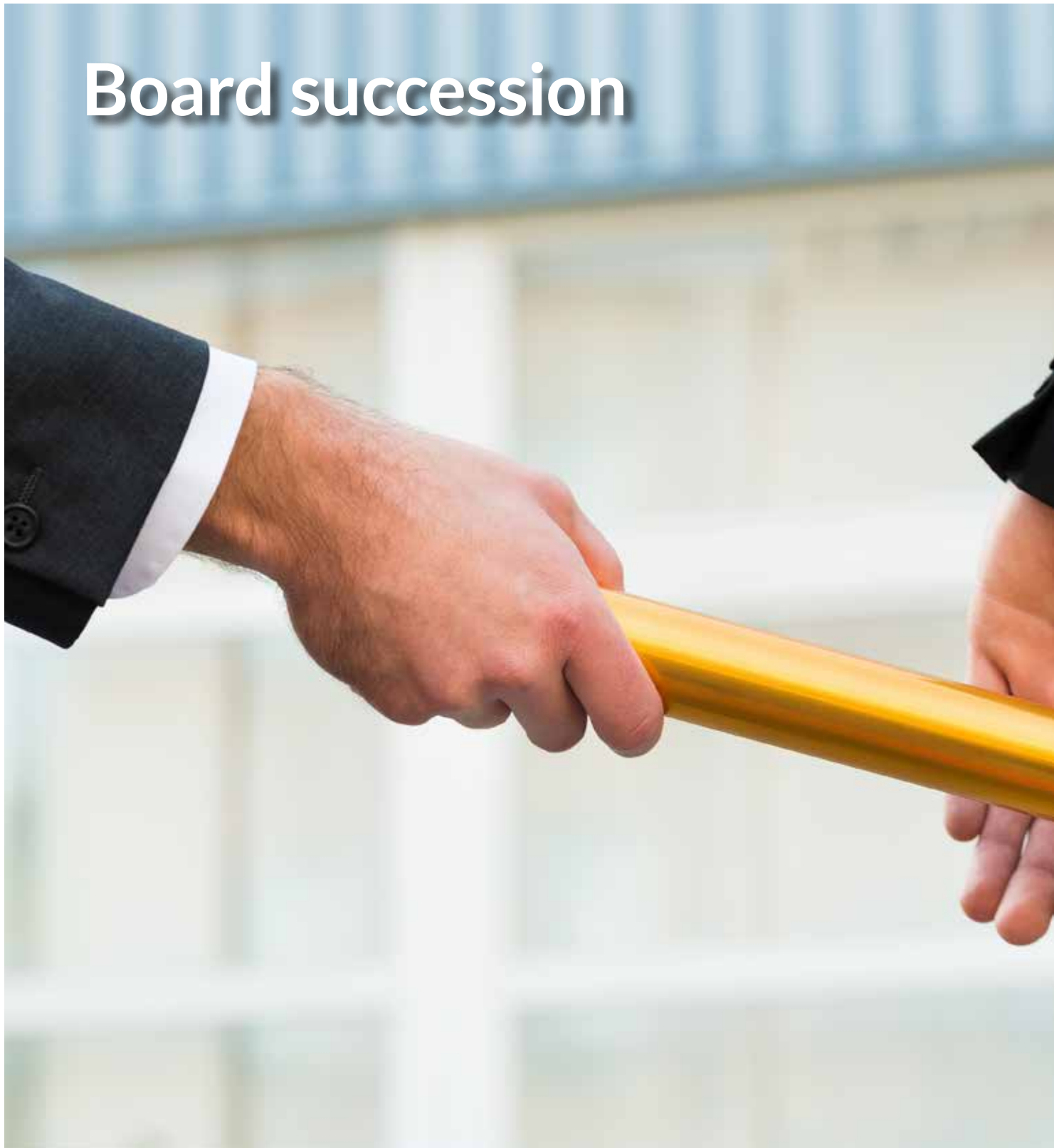
监管机构正在加强对违反董事职责的行为的执法，第一期培训课程旨在向受众解释当前和未来与这些董事职责有关的监管预期。此次课程还涉及的相关问题，如董事会的集体责任、董事会的独立性、独立董事的角色和责任、董事会的多样性以及董事会对环境、社会和治理以及可持续发展事务的监督的重要性。

如您尚未参加此课程，本人建议您报名参加将于3月17日举行的本系列培训的最后一期课程。此外，敬请关注公会将来举办的此系列培训以及相关主题课程。公会将继续通过我们的思想引领出版物和持续发展课程，在支持董事会有效性方面发挥作用。



李俊豪先生 FCG HKFCG(PE)

# Board succession







Succession planning is a core part of good board governance. Neil Waters, Office Leader and Partner, Egon Zehnder Hong Kong, offers some tips on how to get it right.

Succession is a complex and tricky issue, but it is one that boards simply cannot ignore. It is inevitable that there will be turnover, therefore the sensible and responsible approach is to properly plan for it.

Company boards have always faced challenges, however the magnitude of global and local changes in recent years feels unprecedented. Ensuring the board has the right skills, experience and independence to deal with current and future uncertainty is essential.

The direction of travel is for more frequent board refreshment. According to a recent PwC report (Non-Executive Directorship in Hong Kong 2021 Review), the average tenure of non-executive directors (NEDs) and independent non-executive directors (INEDs) in Hong Kong reduced from 5.47 years in 2017 to 5.24 years in 2021.

Moreover, Hong Kong's Corporate Governance Code and Listing Rules were revised in January 2022 to promote board independence and

incentivise board refreshment and succession planning. Hong Kong listed boards need to be proactively thinking about what this all means for them.

Also, recent legislation by the US Securities and Exchange Commission, requiring US companies to use a universal proxy card, may make it more likely that current directors could become more vulnerable to replacement.

A McKinsey article (Investors Remind Business Leaders: Governance Matters, October 2020) points out that governance is increasingly top of mind for institutional investors. Quoting research by Activist Insight ([www.activistinsight.com](http://www.activistinsight.com)), the article states that around 70% of all activist-investor demands over the past decade have focused on governance and many have garnered support from proxy advisers. The research indicates that activist investors' corporate governance concerns, while many and varied, tend to fall into two broad categories: structural or personnel-related. Those relating to personnel include

## Highlights

- ensuring the board has the right skills, experience and independence to deal with current and future uncertainty is essential
- the direction of travel is for more frequent board refreshment
- the needs of the organisation and the needs of the incumbent person need to be carefully balanced

“  
**it is the obligation  
of directors to  
consider succession  
as part of their  
corporate governance  
responsibility**  
”



requesting leadership changes such as the removal of senior executives or board members for failures of performance.

A key obligation for any board is to maintain control of the company through any period of transition. Boards (and companies) perform best when this is the case. Ideally, boards want to be in a position on any issue to consider the full suite of options, knowing whatever they choose will be supported by shareholders. So it is with succession planning. Ideally, people (internally and externally) should not notice the succession happening. The worst thing to do is to create a shock leading to negative news, which leads to uncertainty and can materially impact the company’s share price.

World class companies think about transition in multi-year timeframes. The revisions to Hong Kong’s Corporate Governance Code and Listing Rules in January 2022, among other things, require:

- any further appointment of INEDs that have served more

than nine years should be subject to a separate resolution to be approved shareholders, and

- a new INED should be appointed if all INEDs on the board are long-serving INEDs (serving more than nine years).

There is a clear incentive for boards to have timely, open and honest conversations about succession planning. Within this, they should also consider chief executive officer (CEO) succession, which, although not subject to a timeframe in the same way as it is for INEDs, is a critical element of good governance. Having concurrent transitions of CEO and Chair, for example, can look troubling to investors.

Over and above the local regulator, global institutional shareholders are taking even more strident positions. Investors like BlackRock are very clear about their expectations, and it goes well beyond independence and tenure (see Our Approach to Engagement on Board Quality and Effectiveness, at: [www.blackrock.com](http://www.blackrock.com)). As more

Hong Kong companies want global capital they will be subject to these requirements, and succession and board quality will be high on the list of criteria for investment selection.

**Guidance on board renewal**

To help get started there are some important things to take into account.

- Consider the capabilities you currently have. What skills do current board members possess? How diverse is the board in terms of age, gender, nationality, etc? Are any board members overboarded?
- Consider how the company is changing and what capabilities you need to govern it in the future. This is also about other people in the organisation. You might have a great executive team, but if there is no potential CEO successor then you need to consider what type of leader you could bring in. Do you need industry experience? Could a great people leader come in from another industry? Alternatively, you might have three great

internal candidates. What happens when you choose one and may lose the other two as a result of that decision? All of this creates instability for the people directly involved, as well as the wider company.

- Consider the knowns and the unknowns. With board members, you know when they are up for re-election and when their term may end. With CEOs you often do not. It is essential to closely monitor the individual, assess their capabilities and understand their motivations.
- The plan needs to be flexible. Having a detailed plan in place does not mean that things won't change. When the environment shifts, you need to be aware of the unintended consequences of what might happen. Always be prepared that the plan might need to be accelerated.
- Consider how these processes should be governed. There

is an inevitable desire for succession planning to be treated as top secret because you are talking about individual desires. However, you need to be thoughtful about it and this involves being open as far as necessary. It is best to build in the greatest amount of transparency that there can be. It is not satisfactory for only the Chair and the CEO to know what is planned.

#### Plan for evolution rather than revolution

Following the above tips should help to smooth the succession planning process, but it is still tricky.

The needs of the organisation and the needs of the incumbent person need to be carefully balanced. Regardless of whether it is the Chair, NEDs, INEDs or the CEO, there will be different preferences that need to be understood and carefully managed.

While you may have a seemingly bulletproof plan in place, emotions can get in the way – succession is very

personal and elicits human responses. What could appear to be simple and under control one day, may become fraught with very little warning.

Succession is often seen as a one-way path. This means that opening the conversation at the right time can be a challenge. Wherever possible, knowledge about succession planning should be kept to those who need to know, but it can spread further. This can lead organisations to enter a period of hiatus or flux. In the worse cases, it can lead to inaction while the wider organisation puts on hold key decisions while waiting for the leadership change to happen.

The good news is that external advisers can help to guide boards through succession planning, providing impartial and independent advice on what 'good' looks like and how to mitigate risks.

In conclusion, it is the obligation of directors to consider succession as part of their corporate governance responsibility. Be mindful of the needs of both the organisation and the individual(s) involved. Prepare early and plan for evolution rather than revolution. But most importantly, do not ignore it!

#### Neil Waters, Office Leader and Partner

*Egon Zehnder Hong Kong*

*The author can be contacted via email: [neil.waters@egonzehnder.com](mailto:neil.waters@egonzehnder.com); or by phone: +852 2918 7680. More information is available at: [www.egonzehnder.com](http://www.egonzehnder.com).*

## Key takeaways

- It is never too early to start to think about succession planning. It is something that should be addressed over a multi-year timeframe. Start preparing early and do not stop.
- It can be tempting to keep plans secret because of the personal nature of succession planning. However, it is important that key stakeholders are informed and engaged at the right time. Trust and integrity are the glue that holds the plan together.
- Plan for the best, but also consider contingencies. Things change and it is important to have a process that is adaptable, in order to respond to any unforeseen events.

# Director training – a focus on INEDs

CGj reviews the first part of a new series of training sessions launched by the Institute, in collaboration with Hong Kong Exchanges and Clearing Ltd (HKEX), to broaden awareness and understanding of directors' duties, especially those of independent non-executive directors (INEDs).

The Hong Kong Chartered Governance Institute  
香港公司治理公會

## Director training – a focus on INEDs

Session One: Understanding Director/INED's Duties

28 November 2022



As organisations of all types are facing major challenges, from digital transformation to cybersecurity and sustainability, the value of having an effective board has never been better recognised. As a result, directors are facing increased scrutiny, expectations and personal accountability in the fulfilment of their duties.

Against this backdrop, the Institute, in collaboration with HKEX, has launched a new series of training sessions under the title: Director training – a focus on INEDs.

‘The last decade has seen many changes to the Listing Rules and the Corporate Governance Code (the Code),’ said Ernest Lee FCG HKFCG(PE), Institute President and Technical Partner, Deloitte China, in his welcoming address at the first training session, held in November 2022. ‘Directors are now facing much greater regulatory scrutiny and heightened expectations from investors, regulators and others. Directors’ oversight of various governance matters from risk management to ESG concerns are certainly within the remit of directors’ duties. Directors, including INEDs, are also increasingly called into account and assume personal responsibilities. The best form of risk mitigation is acquiring appropriate training and knowledge of regulatory and enforcement concerns.’

The series comprises three training sessions held at HKEX Connect Hall, giving participants the option of online or in-person attendance. It features HKEX speakers and experienced directors, as well as market practitioners and governance professionals, to promote a better

understanding of how directors can meet current and future regulatory expectations, and enhance their contribution to good corporate governance.

In this article, CGj highlights the key takeaways from the first session of the series.

### Directors’ duties

Directors’ duties have been a key theme of rule changes and enforcement actions by regulators in Hong Kong. Ellie Pang FCG HKFCG(PE), Institute Chief Executive, a speaker at the first training session, focused her presentation on the regulatory regime in Hong Kong relevant to directors’ duties.

She emphasised at the outset that HKEX has been, and will continue to be, highly vigilant in taking enforcement action against directors in breach of their duties. She pointed out that many of the enforcement actions described on the HKEX website relate to cases against directors based on Main Board Listing Rule 3.08 (GEM Rule 5.01), which sets out the expectations and requirements relating to directors’ duties.

### Highlights

- NEDs and INEDs share the same liability under the law and Listing Rules as executive directors
- the Listing Rules give all directors, including NEDs and INEDs, the right to access the information they need to be able to participate in board proceedings in a meaningful and effective way
- this includes seeking advice from external professional advisers at the company’s expense

Another point emphasised by Ms Pang was that the Listing Rules and Code apply to all directors, including non-executive directors (NEDs) and INEDs. This issue was raised in the Q&A session at the end of the training. The Chair of the Q&A, Edith Shih FCG(CS, CGP) HKFCG(CS, CGP) (PE), Past International President and Institute Past President, and Executive Director and Company Secretary, CK Hutchison Holdings Ltd, pointed out that it is not only executive directors who are penalised in regulatory enforcement actions. ‘NEDs, INEDs and company secretaries all have a role and responsibility in managing the company, so everybody is included,’ she said.

She addressed the following question from the floor to the speakers and panellists. ‘Why should an INED be held responsible in the same manner as an executive director – after all, they don’t work in the company?’

Katherine Ng, Head of Listing, HKEX, both a speaker and panellist at the first training session, challenged the assumption behind the question. Given the collective responsibility all directors bear for the board’s

decisions, she urged NEDs and INEDs to ensure they have a clear understanding of what they are taking on when they sign up for their roles.

‘Ultimately, they are signing up for monitoring and providing a critical check and balance on the management of the company. They might not be in the office every day, but they have the important role of checking that everything is in order,’ she said.

She acknowledged that there are common misconceptions about the INED role – in particular the idea that they are not to blame if management keeps them in the dark about any misconduct. She pointed out that one of their functions is to ensure the organisation has effective internal controls to prevent misconduct going unchecked.

‘I can’t stress enough the importance of the oversight role of INEDs. Their responsibility is not just to turn up at meetings and they cannot rely solely on the information supplied by management,’ she said.

Panellist Teresa Ko JP BBS FCG HKFCG, Senior Partner, Hong Kong and China Chairman, Freshfields Bruckhaus Deringer, and Co-Vice Chair, IFRS Foundation, added that the Listing Rules are specifically designed to give all directors the right of access to the information they need to ensure that they can participate in board proceedings in a meaningful and effective way.

‘NEDs, including INEDs,’ Ms Ko said, ‘have a right to ask the company to

give them the information they need in order to do their job.’

This point was a key theme of the training. Ms Pang emphasised that, while directors are not expected to be experts on everything, they do need to understand the issues being discussed at board meetings. This issue has special relevance to governance professionals since a key part of their board support work relates to keeping the board adequately informed. Ms Pang made it clear that, to allow directors to discharge their duties, management should provide them with all relevant information and documentation.

Nevertheless, she also stressed that directors cannot rely solely on the information provided by management. ‘They should do their own due diligence – investigating and asking for more information or documentation from management if they find anything unclear, or missing from the material they’ve been given. They can also seek help from company secretaries, compliance advisers, general counsel and from external parties such as external professional advisers,’ Ms Pang said. She added that it is the responsibility of the company to pay for any independent professional advice needed.

Another issue highly relevant to governance professionals is the role that director training should play in keeping directors informed. ‘For new directors there should be induction training and for existing directors there should be continuous training that will enable them to contribute to the company they serve more effectively,’ Ms Pang said.

## Board independence and refreshment

Recent revisions to Hong Kong’s Listing Rules and the Code, effective from 1 January 2022, emphasise the importance of having a mechanism to ensure that independent views are available to the board. The rule changes include a new requirement for companies whose INEDs are all ‘long serving’ (having served more than nine years) to appoint a new INED.

Also, companies are required to disclose the length of tenure of any long-serving INEDs, on a named basis, in the AGM papers issued to shareholders. Additional disclosures are required on the factors considered, the process and the board’s discussion on why any long-serving INEDs are still considered independent and should be re-elected.

‘The idea is that if someone has served on a board for over nine years as an INED, this could make him or her a little cozy with management and less able to provide independent views or to provide sufficient challenge to discussions or decisions of the board,’ Ms Pang said.

This was backed up by Ms Ng. ‘We’re not saying that long-serving INEDs are no longer of value to the company, that is up to the company to decide, but we do see the importance of board refreshment – that new perspectives are brought to the company.’

## Board diversity

The value of having a diverse board was another theme of the training. HKEX has made progress in this space, particularly with regard to gender



“  
the best form of risk mitigation  
is acquiring appropriate training  
and knowledge of regulatory and  
enforcement concerns  
”

Ernest Lee FCG HKFCG(PE), Institute President and  
Technical Partner, Deloitte China

diversity and the intention, Ms Ng pointed out, 'is to put an end to all single-gender boards on our exchange'.

In terms of IPO applications, HKEX now requires every listing applicant to have at least one female director on the board. It is still working, however, on existing listed issuers.

'This is not something that can be changed overnight,' Ms Ng acknowledged in her presentation, 'but at the start of this exercise I was personally very alarmed and shocked to find that there were 800 companies with single-gender boards out of the total of around 2,500 companies.'

HKEX has brought in new requirements for companies to set targets and timelines for diversity. Ms Ng emphasised that this is not only about gender – companies need to be thinking about the best composition

for their board in terms of a wide range of different factors, including age, experience and skills.

She added that HKEX launched its diversity repository – Board Diversity & Inclusion in Focus – last year. 'A lot of stakeholders asked us about the gender and age distribution on the boards of our listed issuers. So we put together a repository to provide factual information on directors' backgrounds and diversity. The repository has been very well received by the market. It not only assists stakeholders to understand the current diversity profile of the Hong Kong market, but also helps companies compare themselves with their peers on a range of different factors.

Ms Ng added that HKEX will expand the repository. 'This is just a starting point,' she said. 'We're thinking about

adding subcommittee information and more information on INEDs in the future.'

#### ESG

One of the fastest-evolving aspects of directors' duties relates to the importance of board oversight of ESG and sustainability matters. Speakers and panellists at the training emphasised that companies need to prepare for much tougher rules on ESG disclosure and performance since regulators have already made it clear that they intend to align Hong Kong's ESG regulatory regime with international standards.

Those standards have been coalescing around the existing recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), set up in 2017 by the Financial Stability Board, and the standards expected to be launched later this year by the

“  
 Ultimately, [INEDs] are signing up for monitoring and providing a critical check and balance on the management of the company. They might not be in the office every day, but they have the important role of checking that everything is in order.

”

Katherine Ng, Head of Listing, HKEX



International Sustainability Standards Board (ISSB). The ISSB was launched in 2021 by the IFRS Foundation to develop a global baseline of sustainability-related disclosures.

The transition to a new ESG regulatory regime is likely to raise the bar significantly for companies in Hong Kong. ‘2023 will be a big year for ESG,’ said Ms Ng. ‘This is not a matter of whether it will come – it is definitely coming and companies need to start thinking about how they are going to report on their Scope 3 greenhouse gas (GHG) emissions.’

The draft ISSB standards include a requirement for companies to report on their Scope 3 emissions. This includes indirect emissions that occur in the value chain of the company, both upstream and downstream. To be able to comply with the Scope 3 requirement, companies will need to capture data from their supply chains and there is concern that such data will be difficult to access. Ms Ng pointed

out, however, that many companies are already reporting on their Scope 1 and Scope 2 emissions, ‘and some of those emissions will be someone else’s Scope 3 emissions,’ she said.

She added that the ISSB standards also include an expectation that companies should be disclosing how they are addressing climate risks by means of scenario analysis. Scenario analysis is an increasingly widely used tool to analyse companies’ business model resilience in various hypothetical future scenarios.

Companies will also be expected to publish targets and metrics on decarbonisation. Hong Kong has committed to achieving carbon neutrality by 2050 and companies will need to put in place measures to ensure that they remain in compliance with requirements designed to ensure Hong Kong meets that deadline.

The training session addressed the level of preparedness among companies in Hong Kong for the new regulatory

expectations discussed above. ‘There needs to be an improvement in terms of the quality of the disclosure, but there have been significant improvements in terms of disclosure of board oversight of ESG matters. I think this puts us on a good footing to get ourselves ready for the ISSB standards,’ Ms Ng said.

She emphasised that the awareness of ESG has risen substantially in Hong Kong in recent years, pointing out that all listed companies produce some sort of ESG report and many are already reporting on climate-related issues. She added a recommendation for participants in the training to take a look at the ESG Academy on the HKEX website as a great place to get guidance on all of the issues discussed above. [CC](#)

*Look out for our review of the second session in this training series held on 17 February. The third and final session was held on 17 March. More information is available on the Institute’s website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).*



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# Why do carbon risks matter to your business?

Dr Agnes KY Tai, Director, Great Glory Investment Corporation, shares the findings of her 2022 PhD research, looking at how investors respond to the carbon risks and environmental performance of Hong Kong listed companies.



2022 was a year of more than 2500 catastrophic weather events that tallied to a global cost of US\$270 billion. Heatwaves such as Greenland's temperature at 8°C warmer than average, wildfires that raced across Spain, droughts in various parts of Europe that were the worst in 500 years, along with prolonged droughts in Africa, floods in Pakistan that affected over 33 million people and displaced 8 million, and alarmingly low sea ice level at the Arctic and Antarctica, are all daunting signs that climate risks due to global warming are here now, not in 2100.

The World Economic Forum Global Risks Report 2023 shows six out of 10, in the 10-year horizon, as climate and environmentally related. Scientists using an AI model predict a nearly 70% chance of the world crossing the two-degree threshold between 2044 and 2065. Climate inaction could cost the global economy US\$178 trillion over the next 50 years, according to a Deloitte report (Path to Economic Disaster: Climate Inaction Could Cost \$178 Trillion by 2070, published 25 May 2022).

## Highlights

- not only do global institutional investors care about carbon risks, but they also respond by penalising companies with poor environmental performance, resulting in a discount to their share prices
- a sustainability committee at the board or management level is often necessary to coordinate the complex issues
- directors are increasingly being held accountable for climate governance – in particular regarding the need to commit to a credible plan for reducing emissions

The Task Force on Climate-related Financial Disclosures categorises climate risks into:

1. physical risks – acute (such as fires, droughts, floods and hurricanes), and chronic (such as heat, precipitation and rising sea levels), and
2. transition risks – comprising policy and legal, technology, market and reputation,

where each can impact a firm financially. Carbon risks of firms pertain to financial impact associated with climate transition risks.

### Active decarbonisation of investment and lending portfolios

Not only do businesses suffer supply shortages, power failures, business disruptions, facilities repair costs, reduced worker productivity and higher insurance premiums in the face of physical climate risks, their greenhouse gas (GHG) emissions could lead to costly transition risks if not genuinely abated.

Global investors, financiers, customers, employees and non-profit organisations are scrutinising the GHG reduction

## “ over 90% of [capital providers] will likely divest stocks with persistently poor environmental performance or exclude them from their investible universe, the severest action open to investors ”

commitments of companies, partly due to regulatory pressure on them to decarbonise their investment or lending portfolios. The reason behind the push to decarbonise is that carbon risks will impair the growth of their portfolio companies. Potential asset write-downs or write-offs, new carbon taxes or fines, higher cost of capital and capital expenditure, and a drain on cash flow all translate to lower enterprise valuations and/or higher risks of debt default in their portfolio companies.

### **Demands from regulators and capital providers**

Carbon risks are not taken lightly. Corporate board directors are being held accountable for climate governance. They are expected to have sufficient knowledge in the 'double materiality' of climate risks (how climate impacts the business financially, and how the firm's GHG emissions affect the planet and society), and to commit to a credible plan for reducing emissions and improving transparency in disclosures. Shareholder activism and court actions are on the rise.

In May 2021, Engine No 1 was successful in replacing three (out of 12) board directors of Exxon Mobil via AGM voting to push the energy giant to reduce its carbon footprint.

Although owning 0.02% of Exxon's shares, they were backed by large pension funds, including CalPERS, calSTRS and the New York State Common Retirement Fund. The world's top three asset managers BlackRock, Vanguard and State Street also voted against Exxon's leadership.

On 9 February 2023, ClientEarth filed a lawsuit against 11 board directors of Shell plc for inadequate climate strategy that would put the oil giant at financial risk. The environmental legal firm's court action was supported by large pension funds such as UK's Nest and London CIV, and asset managers like Sanso IS and Danske Bank Asset Management. In May 2021, Friends of the Earth and more than 17,000 co-plaintiffs succeeded in a landmark case against Shell, whereby a Dutch court ordered the company to reduce CO<sub>2</sub> emissions from its products by 45% by 2030. Shell is appealing.

The largest global sovereign wealth fund of Norway announced in 2017 that it will divest 20% of the country's portfolio from oil and gas. In early February 2023, this large asset owner warned company directors that it will vote against their re-election to the board if they do not take serious action on climate change, human rights abuses and boardroom diversity.

In October 2021, AIA Group, the largest pan-Asian insurance firm, announced that it had divested from listed coal mining and coal-fired power businesses in its self-managed equity and fixed income investments, seven years ahead of its original divestment strategy goals. The Group has committed to achieving net-zero GHG emissions by 2050, as have over 550 financial institutions from over 50 jurisdictions that have joined the Glasgow Financial Alliance for Net Zero (GFANZ).

### **Can carbon offsets reduce carbon risks?**

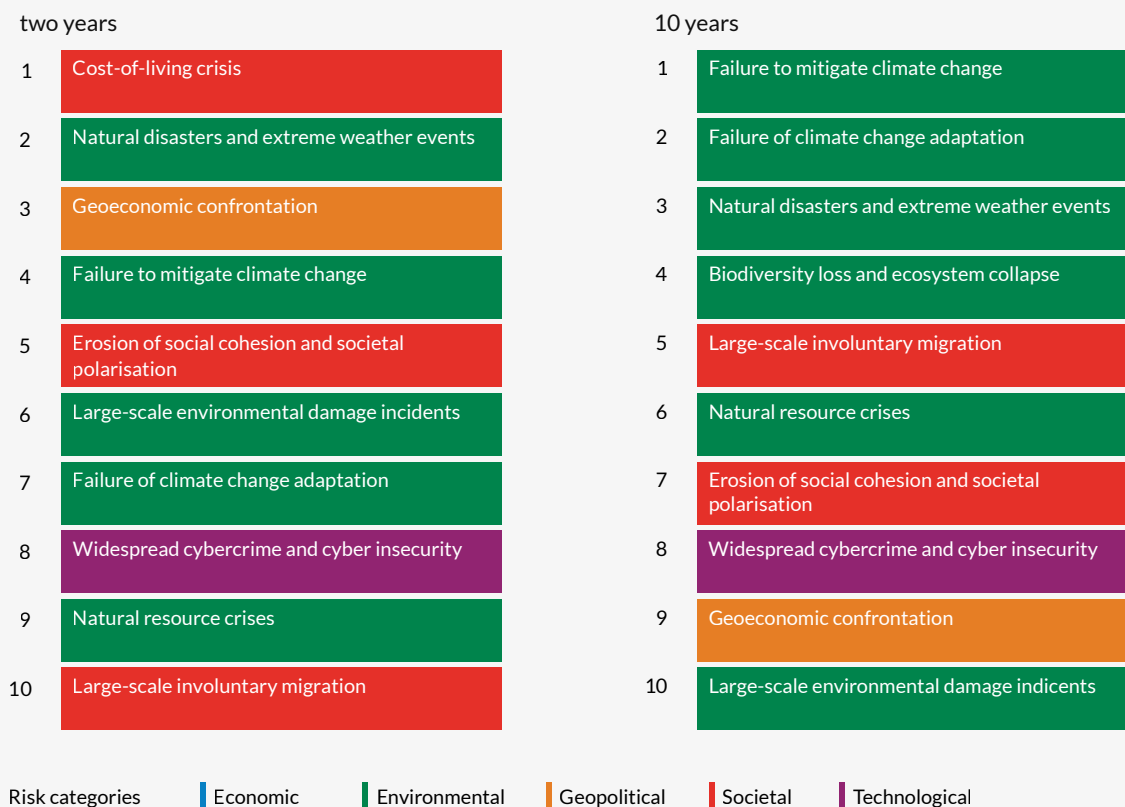
Business leaders are increasingly aware of the risks and opportunities presented by climate change. In response to demands from capital providers, regulators and civic society, and to be a responsible corporate citizen, companies are making ambitious commitments to achieve net zero in their operations and products/services by a future year, mostly 2050.

Renewable energy costs have fallen in the past decade, so much so that they are highly competitive. The International Renewable Energy Agency (IRENA) reported that in 2021 almost two-thirds of renewable power had lower cost than the cheapest coal-fired options in G20 countries. However, not every business has access to renewable energy and GHG emissions for 2022 reached 58 gigatons (GT). To achieve carbon neutrality by 2050, emissions have to fall by three GT each year for the next three decades, instead of an annual increase of 6% as in the recent past.

With a growing population and economic growth, no meaningful GHG

## World Economic Forum Global Risks Report 2023

Environmental issues dominated the estimation of global risks over a two-year and 10-year period



Source: World Economic Forum

<https://www.weforum.org/reports/global-risks-report-2023/digest/>

emissions reduction is achievable when affordable carbon capture and storage technology at scale is not available. A number of companies in Europe, California in the US, the Mainland and other jurisdictions are subject to a compliance emissions trading system where they are to purchase carbon credits when GHG emissions exceed assigned thresholds. Some companies that pledged to achieve net-zero have resorted to voluntary purchases of carbon credits in the carbon exchanges to 'offset' hard to abate carbon emissions. Core Climate, launched by

Hong Kong Exchanges and Clearing Ltd (HKEX) in October 2022, is an example of a voluntary carbon exchange that also operates a registry.

Large capital providers engage with high GHG emitting companies to support them in a credible reduction plan, and in doing everything within their capacity to reduce GHG emissions before purchasing quality carbon credits to offset residual carbon emissions. Quality carbon credits have the characteristics of additionality, permanence and measurability, and

are verified by a recognised standards body and registered. Without additionality, real decarbonisation of the global economy is questionable or even unachievable.

Scope 3 carbon emissions are referred to as 'portfolio emissions' for asset owners and managers, and 'financed emissions' for banks. The Net Zero Asset Owners Alliance, with members controlling US\$11 trillion in assets, announced in January 2023 that members are banned from counting carbon offsets toward their carbon

## “ understanding how investors respond to the carbon risks and environmental performance of Hong Kong listed companies can help corporates strategise and communicate better with their stakeholders ”

reductions, so that members take real action in reducing their carbon footprint. The effect of this ban will trickle down to asset managers and to portfolio companies over time, but its impact will likely be felt soon.

### Do carbon risks matter for Hong Kong equity prices?

Over 40% of companies listed on HKEX have Mainland backgrounds or operations, making up around 60% of the total market capitalisation. For the other 60%, many large listed firms are majority-family-held. Institutional investors are active in the Hong Kong stock market, and they deploy investment criteria and methodology here as in other developed capital markets.

In 2022, I completed my PhD research titled Do Carbon Risks Matter for Hong Kong Equity Prices? The research contributes to several knowledge gaps by being the first to study the impact of investors' perception of carbon risks on Hong Kong listed equity prices.

This study also uncovered investors' motivation. The use of mixed methods – regression analysis and expert elicitation (interviews) – and novel carbon risk proxies are additional contributions of this behavioural finance study.

Overall, both regressions and interview results show that investors are more inclined to penalise Hong Kong listed companies that are environmental laggards, rather than reward less carbon intensive ones. Not only do global institutional investors care about carbon risks, but they also respond by penalising companies with poor environmental performance, resulting in a discount to their share prices.

Interviews with selected global institutional investors, who collectively have over US\$19 trillion in assets under management, suggest that most of them are concerned about companies' poor environmental performance and the damage this causes to their long-term financial prospects. Interview results further emphasise that ESG (environment, social and governance) concerns are viewed holistically, and the 'E' pillar is important for sectors where it is material. Respondents also expect environmental performance to impact corporate financial performance significantly in the long run, despite having little effect in the short and the medium term. ESG alone does not overshadow return on investment, which is considered as the institutional investors' first and foremost fiduciary duty.

88% of the capital providers represented in the interview panel

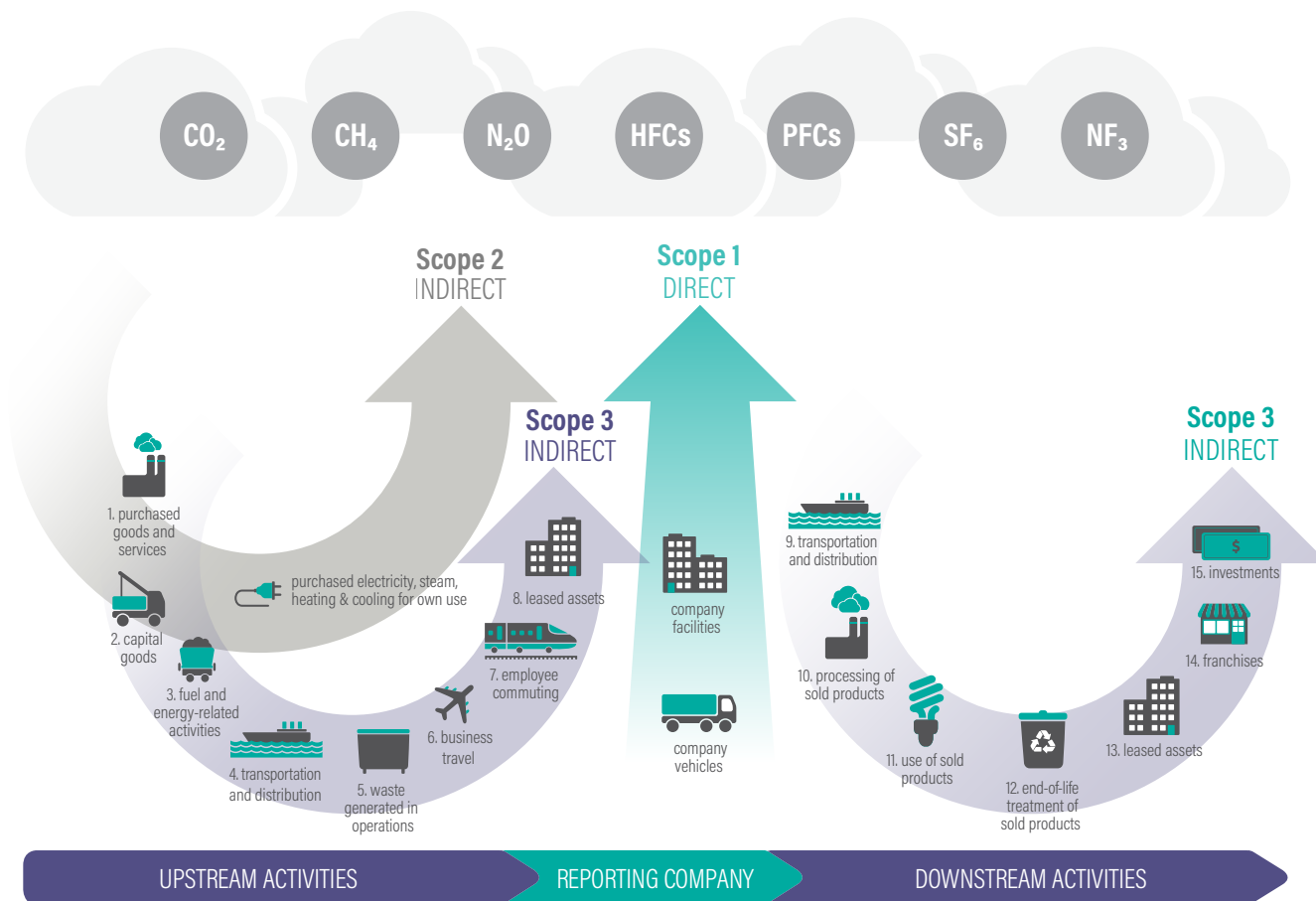
showed willingness to pay a premium for good environmental performance. More importantly, over 90% of them will likely divest stocks with persistently poor environmental performance or exclude them from their investible universe, the severest action that investors can deploy.

The findings can guide global investors in:

1. making informed decisions when they are mandated to include Hong Kong listed companies in their portfolios
2. making investment decisions
3. deploying resources in research and corporate engagement
4. regulatory reporting, and
5. communicating with clients.

Understanding how investors respond to the carbon risks and environmental performance of Hong Kong listed companies can help corporates strategise and communicate better with their stakeholders.

HKEX, the Securities and Futures Commission and the Hong Kong Monetary Authority can use the findings to structure their policies to ensure the continued integrity of the markets, and to strengthen Hong Kong's position as a regional and Greater Bay Area green finance hub, as well as its world standing as an international financial centre. Service providers can use the findings of this study to educate investors and corporates about the need to better



Source: Greenhouse Gas Protocol

manage their carbon risks, as well as to communicate such risks to them proficiently.

**How can your business adopt actionable climate strategies?**

Understanding both physical and transition risks and their opportunities; how the (non-linear) risks impact the business financially and over what time horizon; setting ambitious yet achievable emissions reduction targets; balancing climate investments with financial performance; sticking with the plans; and being transparent with reporting are elements of good climate governance practices. Often, a sustainability committee at the board or management level is necessary to

coordinate the complex issues. Having an open and forward-looking mindset is another key attribute.

To counter climate physical risks, a company should adopt adaptation strategies to ensure resilience over a long time period. To tackle climate transition risks, having a quality dataset also covering Scope 3 emissions (including those of suppliers, customers and portfolio companies) and internal carbon pricing are some good starting points. Before engaging external consultants, seek best practice examples from investors, banks and industry associations. Resources are not unlimited and effective deployment towards strategic choices require careful consideration.

With prompt meaningful climate action, future generations will be better off, and businesses can be supported by sustainability-aligned investors to stay on a sustainable growth path.

**Dr Agnes KY Tai, Director**  
Great Glory Investment Corporation

*The author is also Head of Sustainability Investment and Advisory, Asset Management, of Arta TechFin Corporation Ltd, a Council member of the Hong Kong Institute of Directors and a Steering Committee member of Climate Governance Initiative Hong Kong Chapter. She has authored a book on investing in H shares, a Harvard Business case and a positive psychology book Tall Miracles.*

# Does better governance lead to a better future for organisations?

Corporate Governance Paper Competition 2022 – Best Paper





The Best Paper of the Institute's latest Corporate Governance Paper Competition explores the rewards and challenges of embedding good corporate governance practices in organisations, and suggests that innovative strategies will be required to secure long-term sustainable growth.

*The Institute's annual Corporate Governance Paper Competition and Presentation Awards has been held since 2006 to promote awareness of corporate governance among local undergraduates. This article is extracted from the Best Paper of 2022. Here, in part one, the authors examine the background and evolution of corporate governance, and outline the factors that affect an organisation's future, including its ability to gain shareholder trust, understand potential areas of risk and effectively allocate resources.*

## Introduction

Major crises are often the catalyst accelerating corporate governance reform. The 1997 Asian financial crisis and the global financial crisis of 2007–2008 spawned an awareness of the importance of corporate governance to manage the risk of corporate failure. An increased recognition of the need for a longer-term risk horizon to transform challenges into opportunities is beneficial to organisations when operating in a dynamic and turbulent business environment.

Despite emerging beneficial trends in corporate governance, concerns over how corporations should be governed have been accentuated with the rapid internationalisation of corporate activities. The massive increase in the scale and activities of corporations has had a considerable impact not only on directors and shareholders, but also on the wider society. Given the rapidly

changing funding world and increased stakeholder demands, organisations have been continually reprioritising their resource allocation in pursuit of sustainability to safeguard and enhance reputation.

In light of the imminent challenges related to climate change and Covid-19 in the 21st century, rethinking the purpose of corporate governance is vital. Embedding environmental and social perspectives into corporate governance practices is imperative to achieve sustainability. Long-term organisational sustainability is an enabler of long-term growth and value creation, which is the key for future organisational success. To enhance the investment climate, corporations are compelled to rebuild investor trust through comprehensive governance practices. A better future for organisations

will be built on sustainable inclusive growth in the long run, as well as through trust based on a proactive approach to governance.

## Theoretical background

### Corporate governance

A generic definition of corporate governance is 'the system by which companies are directed and controlled'. Corporate governance focuses on processes and organisational structures that determine an organisation's direction, control, accountability and management of human relationships. Traditionally, the purpose of corporate governance had been conceptualised by agency theory as maximising shareholder value. Nevertheless, an overemphasis on profit maximisation was later found to be one of the underlying causes of governance crises and corporate failure in the

## Highlights

- the key to future organisational success depends on long-term organisational sustainability, and corporations are now required to build trust with stakeholders and the wider community through comprehensive and proactive governance practices
- factors affecting the future of an organisation include the building of stakeholder trust and the strategic allocation of resources, which in turn benefit the financial sustainability of the company
- today's rapid social, political, economic and environmental changes mean that organisations are constantly facing different risks, including governance, financial and operational risks, which need to be identified and understood

## “ in light of the imminent challenges related to climate change and Covid-19 in the 21st century, rethinking the purpose of corporate governance is vital ”

2000s. Perceiving corporations as having a single purpose of orientating governance practices towards profit-maximisation has in fact narrowed the understanding of the objective of corporate governance.

An adequate understanding of the complexities of corporate governance will require consideration of multiple theoretical perspectives developed after agency theory. Transaction cost, stewardship, stakeholder and managerial theories are all notable perspectives that provide a better conception of the dilemmas involved in corporate governance. A wide diversity of corporate governance systems has been derived from different perceptions of business objectives and is based on 'historical, cultural and institutional dilemmas'. Convergence theorists, however, assert that no one system should be considered superior. Multiple effective configurations of governance practices are possible in a multifaceted world of business.

### **Governance best practices**

Sufficient flexibility in governance frameworks has been suggested in the

G20/OECD Principles of Corporate Governance. OECD illuminates that organisations are operating under widely different circumstances, which requires varying means for achieving identified objectives. Innovative and adaptive practices that take evolving operational conditions into account will create competitive advantage for organisations. Multiple governance guidelines for listed companies, as well as for non-profit organisations, have been published by governments internationally.

The essence of good governance and recommended best practices is that 'stronger growth and inclusive societies' in the long-term can be supported through high-standard governance practices in organisational structures, internal controls, risk management, disclosure and transparency. Corporate governance paradigms have been evolving over time in response to the dynamic economic and social contexts. Corporate responsibility for environmental and social sustainability has preoccupied the purpose of corporate governance in the 21st century.

### **ESG and corporate governance**

Corporate governance mechanisms are deemed to have shaped organisational contributions to social and environmental matters. Corporate governance structures determining the role and responsibility of stakeholders, such as the risk committee and the board of directors, help to monitor and control company involvement in environmental, social and governance (ESG) matters. Organisations engaging in ESG-

related practices and ESG disclosure contribute to sustainable development goals, committing themselves to a more sustainable future. A more sustainable future reduces risks and uncertainties, and balances the needs of the wider society. This aligns with the goal of corporate governance, which is to 'support stronger growth and inclusive societies' in the long-term. A company's approach to ESG is thus also a bellwether for future governance capability.

### **Corporate governance and the long-term future**

Good corporate governance is often associated with future organisational success. In order to succeed in the future, it is widely accepted today that organisations should strengthen their corporate sustainability capacity. Sustainability entails three interdependent dimensions, namely economic, social and environmental sustainability. While a step-up in resources is required to achieve sustainability, good governance that fosters 'economic efficiency, sustainable growth and financial stability' underpins long-term growth and value creation for shareholders and the wider society. Long-term value creation for all key stakeholders helps instil trust and confidence into key stakeholders, incentivising them to partner, invest or fund an organisation on an ongoing basis.

### **Factors affecting the future of an organisation**

#### **Stakeholder trust**

Trust is a subjective probability in which a person or a group assesses that a particular action will be performed. It boosts customers'

confidence and loyalty, thus increasing the revenue of companies. Data reveals that companies with trust are 2.5 times more likely to show better financial performance and this benefit is termed 'high-trust dividend'. Building trust also attracts and secures funding. It is observed that willingness to invest has a positive relationship with investors' level of trust in the organisation. In terms of non-profit organisations, their operation relies heavily on grants and donations. Trust increases the willingness and confidence of donors and funders to donate and award grants, as well as attracts

volunteers to serve in fund-raising events. With stable, or perhaps expanding, profits and funds, an organisation can achieve financial sustainability. From the perspective of employees, trust enhances their engagement and commitment to the organisation, thus retaining talent for the organisation. Talent retention is beneficial to the long-term operation of an organisation since it guarantees quality of work and thus customers' and shareholders' satisfaction, maintains positive organisational culture and allows the efficacious nurturing of talents for the succession of roles.

### Risks

With the rapid social, political, economic and environmental changes, organisations are constantly facing different risks.

**Governance risks.** The roles and responsibilities of directors and senior managers are dynamic due to the ever-changing legal duties and expectations from stakeholders. Role ambiguity and conflicts are common under these circumstances, resulting in ineffective and inefficient management of the organisation, since time-consuming and redundant communication processes can be required for clarification of tasks.

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## “ embedding environmental and social perspectives into corporate governance practices is imperative to achieve sustainability ”

**Financial risks.** Weak management leads to poor cash flow management, which is the greatest factor disrupting profitability and sustainability of organisations, especially small- to medium-sized enterprises. Poor management, such as ineffective checks and balances, creates opportunities for administrative employees to misuse or even embezzle the financial resources. This not only results in a deficit of cash flow in the short term, but also leads to loss of funding in the long run when the image of the organisation is tarnished. For non-profit organisations, donors' and funders' confidence in the organisation would be lowered in the event of scandals related to the misuse of funds.

**Operational risks.** Following the Covid-19 pandemic, the practice of 'work from home' and online shopping has become more popular. These trends are likely to continue and become mainstream in the future. Thus, personal and business data, as well as the operational systems of organisations, are at a higher risk of being exposed and attacked, resulting in data leakage and operational system failure. This poses a threat of long-term business losses to organisations. After suffering from a data breach or cyberattack, the reputation of an organisation would be severely tainted, followed by the

loss of customers and investors to its competitors. Studies reveal that 31% of people have terminated a relationship with an organisation that had a data breach. The most severe blow to the future of an organisation is not a short-term revenue loss, but a long-term loss of business opportunities due to an increase in market share of its competitors. Worse still, when the long-term outlook of a company is grim, its stock price will drop for a significantly long period of time. A massive cyberattack can also cause a downgrade of a company's credit ratings, raising its cost of capital.

### Resource allocation

Resource allocation is the process of assigning and utilising available resources to support value creation in an organisation. An organisation's directions for allocating its financial, technological and human resources greatly affect its future business performance.

### Resource allocation for innovation.

Product and technological innovation is an important strategy for an organisation to survive in the market by creating a competitive advantage over its competitors. Innovation also helps to enhance profitability of the organisation, thus meeting shareholders' expectations of corporate value maximisation. Studies indicate that the research and

development (R&D) expenditure of a firm has a positive relationship with its earnings growth.

**Resource allocation for environmental protection.** Overexploiting natural resources and polluting the environment would increase cost of production in the future. Worse still, the exhaustion of natural resources in the supply chain and adverse business conditions brought by climate change can lead to the unviability of the company and the whole industry. Therefore, resource allocation for environmental management is proved to be associated with the higher competitiveness of an organisation, thus attracting business partners when higher and more sustainable profitability is expected, as well as enticing customers when the corporate image is polished.

### Winona Lau and Yvonne Lau

*The Chinese University of Hong Kong and The University of Hong Kong*

*This two-part article is a summary of the winning paper of the Institute's annual Corporate Governance Paper Competition for 2022, entitled 'Corporate governance – an indispensable element for organisational future triumph', under the theme 'Do you think better governance leads to a better future for organisations?' More information on the competition and the full version of the Best Paper, including case studies cited, along with those from the First Runner-up and Second Runner-up, are available under the Studentship section of the Institute's website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).*



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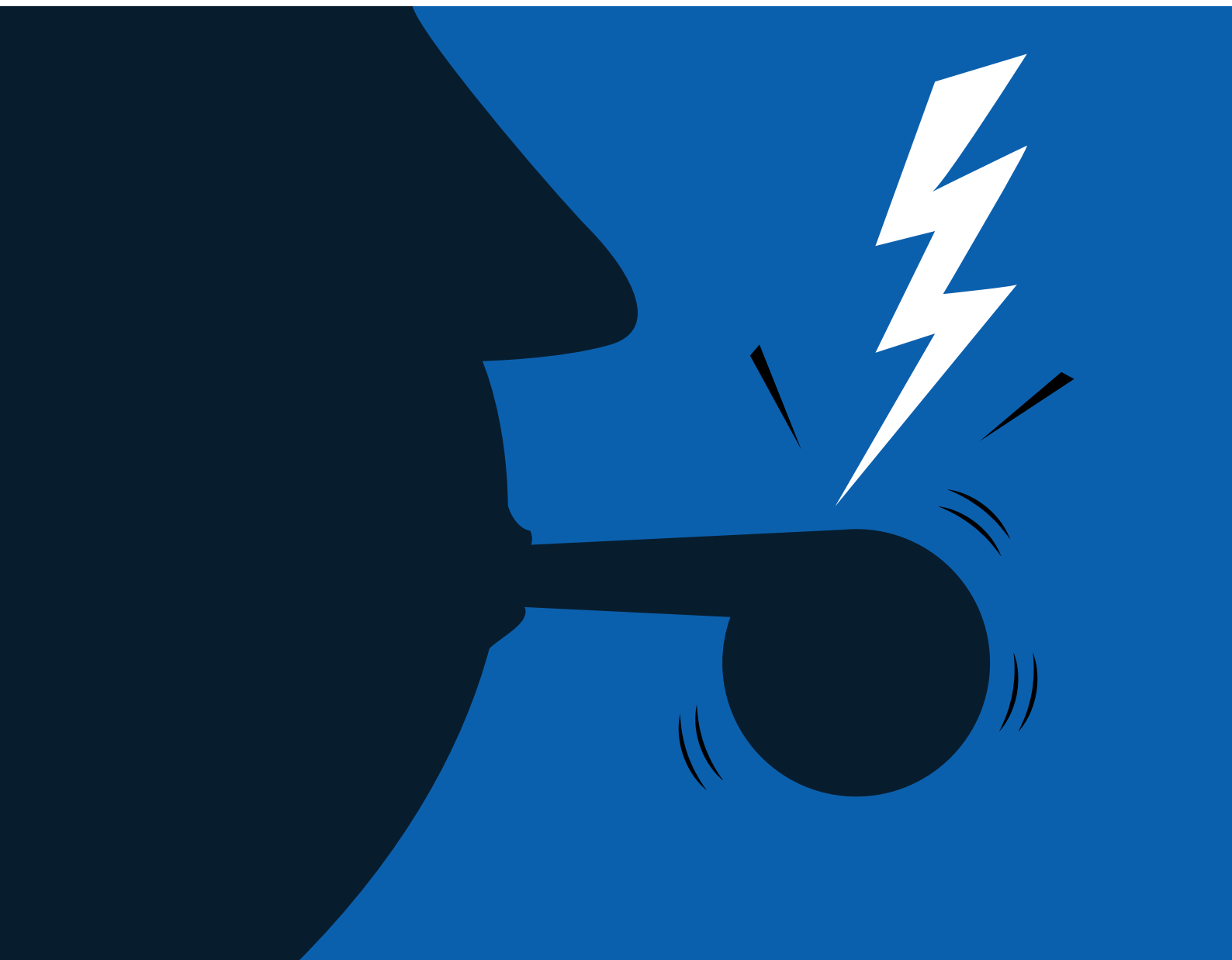
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# Anti-corruption policies, whistleblowing and ethics training



The latest guidance from the Institute's Ethics, Bribery and Corruption Interest Group is intended to broaden awareness of key social aspects of Hong Kong's ESG regulatory regime.

In November 2022, the Stock Exchange of Hong Kong Ltd (the Exchange) released the findings of its latest review of issuers' ESG disclosures – 2022 Analysis of ESG Practice Disclosure (the 2022 Review). The 2022 Review found that listed issuers have generally responded positively to the new requirements of the Exchange's ESG Reporting Guide (ESG Guide), which became effective in July 2020.

The 2022 Review found that there was a high level of compliance with the new requirements of the ESG Guide (Appendix 27 of Main Board Listing Rules) relating to governance and environmental matters. Over 95% of issuers, for example, disclosed their boards' oversight and management approach to ESG. Moreover, 85% of issuers made disclosures relating to climate change – including consideration of significant climate-related risks and mitigation measures, the setting of environmental targets, and reporting on Scope 1 and Scope 2 greenhouse gas emissions.

These relatively high levels of compliance in the 'E' and 'G' aspects were not matched, however, in the 'S' aspects. The 2022 Review found the social aspects of ESG were generally subject to lower compliance levels among the sample reports reviewed. In this context, the latest guidance from the Institute's Ethics, Bribery and Corruption Interest Group – Anti-corruption Policies and Ethics Training Disclosure in Environmental, Social

and Governance Report (EB&C Guide) – is designed to assist governance professionals in ensuring compliance with key social aspects of Hong Kong's ESG regulatory regime – namely, those relating to anti-corruption policies, whistleblowing and ethics training.

#### The increased regulatory focus on the social aspects of ESG

The 2020 upgrade of the ESG Guide was not only targeted at improving issuers' disclosure and performance in environmental aspects. Indeed, the ESG Guide was amended to:

1. upgrade the disclosure obligation of all social key performance indicators (KPIs) from voluntary to 'comply or explain'
2. introduce new KPIs in respect of supply chain management (practices to identify environmental and social risks along the supply chain, and practices to promote

environmentally preferable products and services when selecting suppliers), and

3. introduce a new KPI regarding anti-corruption training provided to directors and staff.

Regarding point 3 above, the 2022 Review commented that, while a majority of sample issuers disclosed that they had provided anti-corruption training to directors and staff, the disclosures generally lacked detail. 'Anti-corruption training is crucial to promote high ethical standards and boost investors' confidence. Issuers should include information on the scope and method of the training, the audience, as well as the frequency of the training provided,' the 2022 Review stated.

#### Anti-corruption policies

The EB&C Guide was published in two parts in January this year. Part 1 focuses on anti-corruption policies,

### Highlights

- amendments to the Exchange's ESG Guide, effective in July 2022, upgraded the disclosure obligation of all social key performance indicators from voluntary to comply or explain
- governance professionals are key players in developing and sustaining anti-corruption and whistleblowing policies, and an effective ethics training programme
- governance professionals need to keep themselves up to date with the latest developments in anti-corruption laws, rules and regulations, and the rising ethical expectations of investors and the public

while Part 2 focuses on whistleblowing policies and ethics training. It emphasises that effective anti-corruption practices are an essential part of good governance and that governance professionals, in particular company secretaries, play a key role in ensuring that listed issuers have a robust anti-corruption system.

‘A robust anti-corruption system forms a vital part of good corporate governance, which is essential to fostering sustainable investment, economic growth and social development,’ the EB&C Guide states.

It also clearly sets out the current regulatory requirements in Hong Kong. Since the latest upgrade of the ESG Guide, listed issuers are obligated, on a comply-or-explain basis, to disclose:

1. concluded legal cases regarding corrupt practices brought against the issuer or its employees and the outcome
2. corruption preventive measures and whistleblowing procedures, and
3. anti-corruption training provided to directors and staff.

In 2022, a new Code Provision was introduced to Hong Kong’s Corporate Governance Code (CG Code), Appendix 14 of the Main Board Listing Rules, requiring all listed companies to establish anti-corruption and whistleblowing policies and procedures encouraging stakeholders to raise concerns about improprieties such as bribery.

The EB&C Guide also makes the point that anti-corruption policies should demonstrate top management commitment. ‘A top-down approach can effectively demonstrate management’s commitment to business ethics. The tone at the top sets forth the company’s values and ethical climate,’ the EB&C Guide states.

Top management should also lead by example, however. Their behaviour should demonstrate their commitment to ethical business practices and decisions when discharging their duties.

Anti-corruption policies should include a clear statement of the company’s policy against corrupt practices, with reference to the Prevention of Bribery Ordinance and any anti-bribery laws applicable to the company. Such a statement may include prohibition of illegal acceptance and offering of advantages and zero tolerance to malpractice.

Perhaps less well recognised is the need for anti-corruption policies to include integrity requirements for a company’s personnel. The company may also consider including suitable probity requirements for major contractors and partners.

#### Whistleblowing policies

As mentioned above, all listed companies in Hong Kong are required to establish whistleblowing policies and procedures encouraging stakeholders to raise concerns about improprieties such as bribery. The CG Code (Code Provision D.2.6) states that ‘The issuer should establish a

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**a robust anti-corruption system forms a vital part of good corporate governance, which is essential to fostering sustainable investment, economic growth and social development**  
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whistleblowing policy and system for employees and those who deal with the issuer (for example customers and suppliers) to raise concerns, in confidence and anonymity, with the audit committee (or any designated committee comprising a majority of independent non-executive directors) about possible improprieties in any matter related to the issuer.’

The CG Code (Code Provision D.3.7) also states that the terms of reference of the audit committee should require it to review arrangements employees of the issuer can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The audit committee should also ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

The EB&C Guide emphasises that whistleblowing policies should include a statement from the top about the company’s commitment to





high probity standards and ethical business practices, and encouraging the reporting of concerns about any actual or suspected misconduct or malpractice in relation to the organisation by employees and external parties.

As with anti-corruption policies, whistleblowing policies should cover employees at all levels and other stakeholders who might be victims of staff misconduct such as business counterparts, for example suppliers.

Organisations should ensure that they establish appropriate reporting channels, bearing in mind that reports may be made against staff members of different levels, including senior management. Organisations are also responsible for ensuring that these reporting channels are well known to all stakeholders.

Whistleblowing policies should also include a statement pledging confidentiality of whistleblowers' identities and the details of their

reports. Persons handling such reports need to keep all related information confidential, except on a need-to-know basis. Policies should also make clear the measures in place to protect against the unfair dismissal, victimisation or unwarranted disciplinary action against bona fide whistleblowers.

The EB&C Guide also emphasises the need for regular reviews of whistleblowing policies.

#### Ethics training

The EB&C Guide emphasises that ethics training is indispensable to an effective anti-corruption system. Such training should be provided to all levels of personnel in the company, including board members, and should cover the areas set out below.

- **Legal and regulatory requirements.** The training should broaden awareness of relevant anti-bribery laws, including the Prevention of Bribery Ordinance, and other legal and regulatory

requirements, such as those of the Listing Rules, against malpractice.

- **Ethical standards and management's commitment.** The training should communicate the guidelines and objectives of the anti-corruption policy and demonstrate management's determination to include ethics as an integral part of business practice.
- **Corruption risks assessment.** The training should enhance vigilance against the risks and impacts of corruption in the key operations of the company, addressing common corruption

## Credits

The Institute would like to thank the Hong Kong Business Ethics Development Centre of the Independent Commission Against Corruption as author of the guidance note reviewed in this article. The members of the Institute's Ethics, Bribery and Corruption Interest Group are Dr Brain Lo FCG HKFCG (Chairman), Jeremy Birch, Mary Lau, Michael Chan, Ralph Sellar and William Tam ACG HKACG. Institute Deputy Chief Executive, Mohan Datwani FCG HKFCG(PE), serves as Secretary to the Institute's Interest Groups. If you have any comments and/or suggestions relating to the Institute's Interest Groups, he can be contacted at: [mohan.datwani@hkcgi.org.hk](mailto:mohan.datwani@hkcgi.org.hk).

## Guidance round-up 2022

2022 was a busy year for the Institute's thought leadership and guidance note work. In addition to new guidance from the Institute's existing Interest Groups, the year also saw the creation of a new Interest Group dedicated to wealth management issues. 2022 also saw the launch of a series of five interviews with practitioners working for listed companies in sectors with high exposure to climate change risks and the transition to a lower-carbon economy. These sectors, including finance, energy and transport, have benefited from supplemental guidance on climate change and sustainability disclosures developed by the Task Force on Climate-related Financial Disclosures. The series (Climate Change and Sustainability – ESG Best Practices Brought to You from the Boardroom) enabled practitioners in these sectors to share insights on climate change, ESG and sustainability issues.

### January

Ethics, Bribery and Corruption Guidance Notes (eighth and ninth issues) – ethical value, fraud prevention and internal controls in relation to digital transformation

### March

Company Law Guidance Note (sixth issue) – share repurchases by a Hong Kong company

Guidance Note on ESG and Climate Change – assisting governance professionals in their board

advisory roles in relation to ESG and climate change

Guidance on Meeting Arrangements – pertinent issues for the reference of governance professionals in relation to meeting arrangements

### May

Guidance on Meeting Arrangements – an update to the March guidance note

### June

Public Governance Guidance Note (eighth issue) – an introduction for tax-exempt charities to the revised tax guide on national security concerns issued by the Inland Revenue Department

Company Law Guidance Note (seventh issue) – convening general meetings with disputing shareholders

General Questions Raised to Privacy Commissioner – the retention period and consents for customer due diligence information and making up of the significant controllers' register

ESG Interviews with Hong Kong Listed Companies (Part 1) – interview with Kenny Luo Nan, General Manager, Board Secretary and Company Secretary, Bank of China (Hong Kong) Ltd

ESG Interviews with Hong Kong Listed Companies (Part 2) – interview with Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE), Executive Director and Company Secretary, and Member of the Sustainability Committee,

CK Hutchison Holdings Ltd, and Past International President and Institute Past President

### July

Competition Law Guidance Note (eighth issue) – the Hong Kong Competition Commission's first action against 'facilitators' of a cartel (the tourist attraction tickets case)

ESG Interviews with Hong Kong Listed Companies (Part 3) – interview with Adrian Cheng Chi-Kong, Chief Executive Officer, and Chairman, Sustainability Committee, New World Development Company Ltd

### August

Governance-related Matters for Hong Kong Start-ups – best practice governance recommendations for start-ups

ESG Interviews with Hong Kong Listed Companies (Part 4) – interview with Gillian Meller FCG HKFCG(PE) Institute Immediate Past President and Ex-officio, and Legal and Governance Director, MTR Corporation Ltd, and Jessica Chan, Head of Sustainability, MTR Corporation Ltd

### September

Public Governance Guidance Note (ninth issue) – sustainability issues for NGOs

ESG Interviews with Hong Kong Listed Companies (Part 5) – interview with David Simmonds FCG HKFCG, Institute Vice-President and Chairman, Membership Committee,

and Chief Strategy, Sustainability & Governance Officer, CLP Holdings Ltd

#### October

Competition Law Guidance Note (ninth issue) – practical tips for dealing with pecuniary penalties in the context of competition law enforcement in Hong Kong

Company Law Guidance Note (eighth issue) – Companies Ordinance provisions for a new inspection regime to enhance privacy rights of directors and other officers (phase 2 implementation)

#### November

Securities Law and Regulation Guidance Note (sixth issue) – the Stock Exchange of Hong Kong’s new Cooperation Guidance and updated Sanctions Statement

#### December

Wealth Management Guidance Note (first issue) – refinement to foreign-sourced income exemption regime

Technology Guidance Note (seventh issue) – data breach reporting

*The above guidance notes are available in the Thought Leadership section of the Institute’s website: [www.hkcg.org.hk](http://www.hkcg.org.hk).*

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pitfalls and ethical challenges such as the conflicts of interest that staff may face in workplace, and providing guidance on how to handle these issues properly.

- **Case studies and analysis.** The training should develop a better understanding of integrity issues through the use case studies and scenarios.
- **Skills to handle ethical challenges.** The training should develop the relevant skills and knowledge staff members need to handle ethical dilemmas at work.
- **Management skills to detect warning signs.** The training should foster management skills in creating an environment conducive to discussion of ethical issues can facilitate managerial staff to perform their gatekeeping role.

In addition, ethics training should not only be provided as part of staff induction programmes – regular training to sustain corruption prevention awareness and to update staff of the latest risks or changes to legal and regulatory requirements are essential.

#### Conclusion

Hong Kong’s ESG regulatory regime continues to evolve and the EB&C Guide emphasises the need for governance professionals, especially company secretaries, to keep themselves up to date with the latest developments. This does not only mean staying informed about changes in anti-corruption laws, rules and regulations, but also the rising integrity expectations of investors and the public.

Company secretaries will also be closely involved in ensuring that the board and all levels of staff receive regular ethics training and updates of regulatory developments in relation to ESG standards. They will also be key players in developing and sustaining a sound and effective corporate governance framework, comprising comprehensive anti-corruption and whistleblowing policies and an effective ethics training programme. 

*More information is available on the website of the Hong Kong Business Ethics Development Centre of the Independent Commission Against Corruption: <https://hkbedc.icac.hk>. The 2022 Analysis of ESG Practice Disclosure is available on the Hong Kong Exchanges and Clearing Ltd website: [www.hkex.com.hk](http://www.hkex.com.hk).*

# The Mainland releases new rules on overseas issuances and listing activities





Benran Huang, Managing Associate, Moge Chen, Associate, and Alex Guo, Associate, Zhao Sheng Law Firm (Linklaters' joint operation partner in the Mainland), summarise the Mainland's new Overseas Listing Regime from the perspective of investors of China Based Enterprises. In this first of two articles, the authors outline the new unified filing requirements for both direct and indirect listing activities, and examine the impact on the timetable for different overseas IPO routes.

Following the release of the draft version for public consultation in December 2021, the China Securities Regulatory Commission (CSRC) issued the finalised Trial Measures for the Administration of Overseas Issuance and Listing of Securities by Domestic Enterprises (the Overseas Listing Rules) and a series of associated regulatory guidelines (the Regulatory Guidelines, which together with the Overseas Listing Rules comprise the Overseas Listing Regime) on 17 February 2023 to systematically regulate all types of overseas equity securities issuances and listing activities by enterprises (China Based Enterprises) based in the Mainland, which will take effect from 31 March 2023 (the Effective Date). The Overseas Listing Regime

is expected to have a significant impact on all types of overseas public issuances and listing activities (overseas listings), and even pre-initial public offering (IPO) financings to be carried out by China Based Enterprises. (See 'Overview of the contents of the Regulatory Guidelines'.)

As compared to the consultation draft released in December 2021, the finalised Overseas Listing Regime refines the scope of CSRC's authority over overseas listings, sets out a clearer list of scenarios where overseas listings would be prohibited (the Listing Negative Scenarios) and provides more detailed guidelines on the filing procedures and associated application document requirements.

## Highlights

- the China Securities Regulatory Commission (CSRC) has recently issued its finalised rules and guidelines to systematically regulate all types of overseas equity securities issuances and listing activities by domestic enterprises
- the Overseas Listing Regime, which will take effect on 31 March 2023, refines the scope of CSRC's authority over overseas listings and presents a clear list of scenarios where such listings would be prohibited
- both direct listing and indirect listing activities will become subject to a unified filing requirement with CSRC, while application procedures have been clarified and simplified

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**the Overseas Listing Regime is expected to have a significant impact on all types of overseas public issuances and listing activities... and even pre-IPO financings**  
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**Key takeaways**

Set out below are a few key takeaways from the new regime, which will be discussed in further detail in this and the second article:

1. Both direct listing and indirect listing activities, which are regulated very differently from a Mainland regulatory perspective, will become subject to a unified filing requirement with CSRC going forward.
2. The new regime will have a different impact on different overseas IPO routes’ timetables.
3. Listability of variable interest entity (VIE) structures in principle is not ruled out, but listability could be subject to more challenges under certain circumstances than others. How VIE structures and associated corporate governance arrangements should be set up pre-IPO may be affected.
4. Corporate governance changes, disclosure requirements for any employee stock ownership plan (ESOP) and the need to ‘look-



through’ ultimate beneficial owners, etc, will have an impact on various market players.

5. Issuers may seek clarification from CSRC through a formal communication procedure either prior to or during a filing.

**Unified regulatory approach and broad coverage**

China Based Enterprises traditionally raised funds in the overseas equity capital markets via one of the following routes:

- direct listing, ie through the issuance of securities by its Mainland incorporated holding company on an overseas stock exchange (most commonly in the Hong Kong Stock Exchange known as H share listing), or
- indirect listing, ie through the issuance of securities of its non-Mainland incorporated holding company (most commonly incorporated in the Cayman Islands or the British Virgin Islands with such holding structure known as a red chip structure) on an overseas stock exchange.

Currently, these two listing routes are regulated very differently from a Mainland regulatory perspective – direct listing activities are subject to the vetting and approval of CSRC, whilst CSRC has no jurisdiction over most of the indirect listing activities conducted in the market. (See ‘Indirect listing activities are not currently unregulated by PRC regulators’.)

**Overview of the contents of the Regulatory Guidelines**

- Regulatory Guideline No 1 elaborates certain provisions under the Overseas Listing Rules, including the Listing Negative Scenarios.
- Regulatory Guideline No 2 sets out the list of filing application documents required, and stipulates the content and format requirements.
- Regulatory Guideline No 3 sets out the reporting requirements after the completion of an overseas listing.
- Regulatory Guideline No 4 sets out the communication procedure with CSRC.
- Regulatory Guideline No 5 sets out the filing and reporting requirements applicable to foreign securities companies.

Following the coming into effect of the Overseas Listing Regime on the Effective Date (but subject to transitional arrangements discussed in part 2 of this article), both direct listing and indirect listing activities will become subject to a unified filing requirement with CSRC going forward.

In the context of indirect listing activities, 'China Based Enterprises' are defined broadly. An issuer's listing will be deemed to be an indirect listing by a China Based Enterprise if the following conditions are met and, in addition to these specific conditions, a 'substance over form' principle needs to be followed in making the determination:

- the issuer's Mainland company(ies) account for more than 50% of the issuer's operating income, profits, total assets or net assets (for the latest fiscal year), and
- the primary parts of the issuer's business activities take place in the Mainland or its main business sites are located in the Mainland, or the majority of its senior management responsible for operations and management are Mainland nationals or habitually reside in the Mainland.

Further, the Overseas Listing Regime applies the filing requirement broadly to:

- all types of direct and indirect listing activities, including IPO, subsequent financing on the same overseas market (Subsequent Financing), dual or secondary listing, or listing via acquisition,

merger or other means (for example, backdoor listing or SPAC/de-SPAC) (Backdoor Listing), and

- all types of equity securities including shares, convertible bonds (whether the bonds are listed themselves or not listed but convertible into listed shares) and depositary receipts (for example, American depositary receipts (ADRs) and the increasingly popular global depositary receipts (GDRs)). (Issuance of non-equity securities such as straight bonds is not subject to the Overseas Listing Regime.)

#### Filing requirements and impact on timetable

The new filing-based regulatory regime gives CSRC the ultimate power to oversee and monitor potential overseas listings of China Based Enterprises.

#### When to file

In the case of an overseas IPO or a dual or secondary listing after an overseas IPO, the issuer shall file (or in the case of an indirect listing, the issuer shall appoint one of its major Mainland onshore operating entities to file) with CSRC within three working days after its submission of listing application in the overseas market.

The same filing timeline also applies in the case of a Backdoor Listing, except that if no listing application for the Backdoor Listing is required in the overseas market, filing with CSRC shall be made within three working days from the initial announcement of the proposed transaction by the relevant listed company.

With respect to any Subsequent Financing, filing with CSRC shall be made within three working days from the completion of issuance of the Subsequent Financing. (See 'Is filing for a Subsequent Financing purely a post-completion procedural matter?')

### Indirect listing activities are not currently unregulated by PRC regulators

An indirect listing involving a 'big red chip structure' is highly regulated by CSRC and other competent regulators. As a result of the applicable regulatory requirements and certain other practical reasons, such an indirect listing structure has been far less common than an indirect listing involving a 'small red chip structure' in recent years.

Also for completeness, an indirect listing (as with a direct listing) may nevertheless be subject to a separate security review from a foreign investment, cybersecurity or data perspective, depending on its specific circumstances pursuant to applicable laws and regulations introduced in recent years.

- **Big red-chip structure:** a red chip structure ultimately controlled by a Mainland enterprise (eg, a state-owned company) rather than Mainland individual(s).
- **Small red-chip structure:** a red chip structure ultimately controlled by Mainland individual(s).

**What to prepare**

Regulatory Guideline No 2 sets out detailed guidelines on the preparation of the filing application documents.

Application documents for an overseas IPO primarily include (i) an application report together with shareholder resolutions, board resolutions and the complete shareholding structure of the issuer attached, (ii) any regulatory opinion, filing or approval from the competent sector regulator(s) (if applicable), (iii) security review (ie, foreign investment, cybersecurity or data review) opinion from the competent regulator(s) (if applicable),

(iv) Mainland legal opinion, and (v) prospectus or other listing documents.

Compared to the application documents required by CSRC for H share listing under the current approval-based regime, the application documents to be provided to CSRC for H share listing going forward will be simplified to some (albeit limited) extent. Notable changes include:

- Regulatory Guideline No 2 sets out more detailed requirements on the contents to be included in the application report and the Mainland legal opinion,

reflecting the latest regulatory focus of CSRC.

- Certain basic corporate materials, such as business license, operating permits and articles of association, will no longer be required to be provided to CSRC.
- Documents evidencing due payment of taxes, etc, will no longer be required to be provided to CSRC, albeit related information is required to be set out in the application report and the Mainland legal opinion.

**Is filing for a Subsequent Financing purely a post-completion procedural matter?**

CSRC allows an issuer to file for its Subsequent Financing after the completion of issuance of the Subsequent Financing with simplified application documents as compared to those required in an overseas IPO.

However, this does not necessarily mean that such filing is purely a procedural matter since, amongst others, (1) the issuer’s Mainland counsel still needs to opine on whether any Listing Negative Scenario is applicable, and (2) the Overseas Listing Regime provides that the issuer shall suspend or terminate any proposed overseas listing (which is not limited to an overseas IPO) if any Listing Negative Scenario exists.

As such, prior to carrying out a Subsequent Financing, an issuer should (1) make proper assessment as to whether there may be any substantial hurdle towards its proposed Subsequent Financing, (2) seek clarification from CSRC on an as-needed basis, and (3) properly arrange the logistics of the Subsequent Financing and filing to avoid potential obligations for violation of the Overseas Listing Regime.

For the avoidance of doubt, where an issuer has already completed its overseas IPO in compliance with the Overseas Listing Regime or the applicable prior listing procedures, and it subsequently becomes subject to any Listing Negative Scenario, we consider the risk of the issuer being asked by CSRC to delist remote, but this factor will likely affect any subsequent overseas listing activity it may wish to carry out.

The same set of application documents is also required in the case of a dual or secondary listing after an overseas IPO, as well as in the case of a typical Backdoor Listing.

With respect to any Subsequent Financing, application documents required and the contents to be included therein are generally more simplified as compared to those required in an overseas IPO.

**Impact on timetable**

Upon receipt of the application documents, CSRC has in principle a period of 20 working days to review and complete the filing, provided that the application documents are complete and prepared in compliance with the Overseas Listing Regime. The clock will stop if and when an issuer is required to provide supplemental documents to CSRC, or CSRC needs to consult with any other competent



regulator(s) to assess the potential application of the Listing Negative Scenarios to the case under review. (See 'Listing Negative Scenarios')

The new regime will have a different impact on different overseas IPO routes' timetables:

- Direct listing: the implementation of the new regime means deregulation from an approval-based system to a filing-based

### Listing Negative Scenarios

A China Based Enterprise cannot seek overseas listing if:

- the listing is expressly prohibited by laws, regulations or other relevant rules
- the listing may endanger national security as determined by the competent regulator(s)
- it or its controlling shareholder or actual controller has committed a criminal offence of corruption, bribery, embezzlement of property, misappropriation of property or disruption of the socialist market economic order within the last three years
- it is under investigation for suspected criminal offences or material violations of laws, or
- there is a material dispute over the ownership of the shareholding held by the controlling shareholder or the actual controller.

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the new filing-based regulatory regime gives CSRC the ultimate power to oversee and monitor potential overseas listings of China Based Enterprises  
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system for direct listings. Issuers can reasonably expect that the CSRC's review period of will become shorter in practice.

- Indirect listing:
  - o For big red chip listings, issuers can also reasonably expect a quicker timetable as the previous complicated approval procedures will be replaced in their entirety by the new regime. We may have a chance to observe the resumption of volume in terms of big red chip listings in the future.
  - o In terms of the more typical small red chip listings, even in the absence of any substantial listing hurdle, the additional CSRC filing requirement still means extra work to be carried out by the issuers, underwriters and their respective advisors, which needs to be factored into the overall timetable of such listing activities.

#### Additional sector approval or security review procedures may apply

Regulatory Guideline No 2 requires an issuer to provide, as part of the

application documents for an overseas IPO, any regulatory opinion, filing or approval from the competent sector regulator(s), as well as a security review opinion from the competent regulator(s) on an as-applicable basis.

Any additional impact on timetable shall be taken into account where an issuer's business may subject its overseas IPO to any sector approval or security review procedures.

Where an issuer considers that no such procedure is applicable, an appropriate written statement shall be included in its application report, and its Mainland counsel is also responsible for verifying the same and providing confirmation in its legal opinion.

#### Special requirements may apply to GDRs

For completeness, GDRs to be issued by Mainland listed companies are expected to be subject to special filing rules to be further promulgated as indicated by CSRC.

**Benran Huang, Managing Associate, Moge Chen, Associate, and Alex Guo, Associate**

*Zhao Sheng Law Firm (a member of the Linklaters global network)*

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## Professional Development

### Seminars: January 2023

**4 January**  
**Decoding startup investment and common governance issues of early stage companies**



*Chair: Bill Wang FCG HKFCG, Institute Council member, Membership Committee Vice-Chairman, Mainland China Affairs Committee member, Technical Consultation Panel (TCP) member and TCP – Securities Law and Regulation Interest Group member*  
*Speaker: Cermain Cheung, Consultant, Oldham, Li & Nie*

**11 January**  
**CSP training series: how to serve the board better (session one: effective board meetings)**



*Chair: Susan Lo FCG HKFCG*  
*Speaker: Patricia Hui FCG HKFCG*

**13 January**  
**Structured finance: using an orphan SPV**

*Chair: Eric Chan FCG HKFCG(PE), Chief Consultant, Reachtop Consulting Ltd*  
*Speakers: Rachel Huang, Partner, Cheryl Heslop, Associate Director, Debt Capital Markets, and Wei-Hsin Tsai, Associate Director, Debt Capital Markets, Ogier Global*

**16 January**  
**Annual general meeting of Hong Kong private companies**



*Chair: Frances Chan FCG HKFCG, Institute Professional Services Panel member, and Founder and Director, K. Leaders Business Consultants Ltd*  
*Speaker: Margaret Wong ACG HKACG, Director, Company Secretarial, Corporate Services, Intertrust Group Hong Kong*

**17 January**  
**The transformative power of diversity: regulatory discussions and practical sharing**



*Speakers: Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE), Past International President and Institute Past President, Nomination Committee Chairman, Mainland China Affairs Committee member and Company Secretaries Panel member, and Executive Director and Company Secretary, CK Hutchison Holdings Ltd; and Andrew Weir MBE JP, Senior Partner, Hong Kong, Vice Chairman, KPMG China*

### ECPD Videos on Demand

Some of the Institute's previous ECPD seminars can now be viewed on its online platform – ECPD Videos on Demand.

*Details of the Institute's ECPD Videos on Demand are available in the Professional Development section of the Institute's website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).*

*For enquiries, please contact the Institute's Professional Development Section: 2830 6011, or email: [cpd@hkcgj.org.hk](mailto:cpd@hkcgj.org.hk).*

## ECPD forthcoming seminars

Date	Time	Topic	ECPD points
22 March 2023	4.00pm–5.30pm	Advanced AGM and shareholder meeting practices of listed companies	1.5
29 March 2023	4.00pm–5.30pm	Fund administration – evolution & governance	1.5
30 March 2023	3.00pm–4.30pm	Update on amendments to BVI Business Companies Act	1.5
12 April 2023	6.45pm–8.15pm	CSP training series: how to serve the board better (session three: roles of the company secretary in influencing the board)	1.5

For details of forthcoming seminars, please visit the Professional Development section of the Institute's website: [www.hkcg.org.hk](http://www.hkcg.org.hk).

## Membership

### New Associates

The Institute would like to congratulate our new Associates listed below.

Chan Chun  
 Chan On Ying  
 Chan Wai Chung, Agatha  
 Cheung Tze Ling  
 Cheung Yen Lun, Sally  
 Chiang Ho Chun  
 Chiu Sik Fai  
 Du Ning  
 Ge Jun  
 Guo Chang  
 Huang Xiling  
 Lam Tsui Yee  
 Lee Sze Man, Ellen  
 Leung Nga Laam  
 Poon Chi Long  
 So Kwan Yee  
 Tam Ho Yee, Queenie  
 Wai Yuen Sze  
 Wong Chun Kat  
 Xiao Yini  
 Yeung Lok Yan  
 Yip Yuen Man  
 Zhou Qiong  
 Zou Jieni

### New graduates

The Institute would like to congratulate our new graduates listed below.

Chan Cho Hung	Lee Ka Lim	Wong Tsz Kwan
Chan Shing Yan, Stefanie	Leung Wai Chun, Alison	Wu Wing Yin, Ivy
Chan Wai Yin	Leung Wing Ping	Yau Pui Yan
Chan Yuet Ying	Li Tin Yan	Yeung Wai Chung
Chau Chor Ling	Lin Huajuan	Zhang Cong
Cheng Faye	Lo Ka Lai, Elsa	Zhang Yanjun
Cheng Yao	Ma Kei Man	
Cheung Lai Kwan	Ma Tsz Ching	
Cheung Siu Ting	Mack Hon Wah	
Chiu Tao Huen, Charlotte	Ngan Man Hei	
Choi Man Ka, Vanessa	Ou Yeung Shing Yi, Sandy	
Chu Shuk Yin	Sham Tsz Wing	
Chun Cheuk Sze	Shing Yuen Wai	
Fung Ka Chun	Shum Shing Kei	
Hau Ka Yan	Sin Pui Yiu	
Hung Tsz Ki	Sin Yuet Sheung	
Kui Ho Ki	So Mei Yee, Sandy	
Kwok Chun Hei	To Kit Wa	
Kwok Sin Kam	Tong Kwing Fai	
Kwok Sing Yin, Karis	Tsang Chak Yuk	
Lai Wing Yan	Wang Lingxue	
Lam Yin Tung	Wang Yanni	
Lau Ka Yu	Wong Che Tou	
Lau Wai Wa, Daniel	Wong Kit Ni, Nicole	
Law Chui Mei	Wong Man Yee	

## Membership (continued)

### Governance Professional Mentorship Programme 2023

Now in its eight term since its inception in 2015, the Institute's Mentorship Programme has served as a platform to foster future leaders of the governance profession, and to facilitate the exchange of ideas and experiences between mentors and mentees. The recruitment of mentors and mentees for the programme continues to receive an enthusiastic response from members, graduates and registered students.

On 16 January 2023, a ceremony was held to celebrate the completion of the 2022 programme and to launch the 2023 programme. This was the first time



since December 2019 that an in-person, rather than an online, event could be organised. At the ceremony, Institute President Ernest Lee FCG HKFCG(PE) thanked the mentors for their time and welcomed new participants to the programme. He also encouraged mentees to make use of this platform to



broaden their horizons. Institute Chief Executive Ellie Pang FCG HKFCG(PE) gave an update on the Institute's affairs.

A series of activities will be arranged for the 2023 programme, details of which will be reported in future editions of CGj.



## Forthcoming membership activities

Date	Time	Event
1 April 2023	10.00am–12.00pm	Lawn bowls fun day (morning session) (草地滾球)
1 April 2023	2.00pm–4.00pm	Lawn bowls fun day (afternoon session) (草地滾球)
15 April 2023	8.30am–12.30pm	Zentangle in nature workshop (禪繞 - 大自然靜思繪畫工作坊)
22 April 2023	2.00pm–3.00pm	Wellness series: hatha yoga workshop
22 April 2023	3.30pm–4.30pm	Wellness series: yin yoga workshop

For details of forthcoming membership activities, please visit the Events section of the Institute's website: [www.hkcg.org.hk](http://www.hkcg.org.hk).

## Membership activities: January 2023

7 January

Chinese New Year 3D greeting card  
workshops



## Advocacy

### Professional seminars at The University of Hong Kong

On 19 January 2023, Institute Registrar Louisa Lau FCG HKFCG(PE) and Institute member Philips Ng ACG HKACG conducted two professional seminars on Careers in Governance for 180 Master of Finance students from The University of Hong Kong. Information was shared about the Institute's dual qualification of Chartered Secretary and Chartered Governance Professional.



## Advocacy (continued)

### Institute Council strategy meeting

The Institute Council strategy meeting was held on 11 February 2023. The meeting was chaired by Institute President Ernest Lee FCG HKFCG(PE) and was attended by Past International President and Institute Past President Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE) (Council Honorary Advisor), Council members and other Past Presidents, other contributors and members of the Secretariat team. Based on an evaluation of milestones achieved in previous years, the discussions focused on the strategic objectives and plans for 2023 and the post-pandemic transition.



### Webinar for companies planning to list in Hong Kong and the 68th Governance Professionals ECPD seminars (online)

The Institute held a webinar for companies planning to list in Hong Kong (phase I prior to submission of listing application) and the 68th Governance Professionals ECPD seminars on 2 and 3 March 2023. The event attracted over 40 participants, mainly comprising board secretaries, CFOs, directors and other governance-related practitioners from companies planning to list in Hong Kong.

At this event, Institute Vice-President Dr Gao Wei FCG HKFCG(PE), Institute Council member Tom Chau FCG HKFCG and other senior professionals and governance practitioners shared their insights on the following topics:

- Hong Kong listing requirements and procedures
- Hong Kong Listing Rules Chapter 18C – listing regime for specialist technology companies
- verification, evaluation and optimisation of the restructuring plan
  - o Hong Kong listing positioning, core framework establishment and selection of intermediary organisations
  - o establishment of restructuring plan – compliance rectification, major legal proceedings and liquidation of creditor’s rights and debts etc
  - o financial audit and financial preparation for listing
- pre-IPO financing: introduction of new shareholders such as PE/strategic investors
- overview of the China Securities Regulatory Commission’s new filing requirements for companies planning to list in Hong Kong
- employee stock ownership platform and stock incentive scheme for companies planning to list, and
- experience sharing: governance preparation and planning for Mainland companies going public in Hong Kong.

The Institute is also arranging to hold another event for companies planning to list in Hong Kong, with a focus on phase II of the pre-IPO process, covering Hong Kong listing requirements, procedures and preparation, on 10 and 11 August this year. The in-person seminar will be held either in Beijing or Suzhou, details of which will be announced as soon as possible.

## Chartered Governance Qualifying Programme (CGQP)

### November 2022 examination diet

The results of the November 2022 examination diet were released on 14 February 2023.

#### Pass rates

A summary of the pass rates for the CGQP November 2022 examination diet is set out below.

Module	Pass rate
<b>Part One</b>	
Corporate Governance	34%
Corporate Secretaryship and Compliance	28%
Hong Kong Company Law	24%
Interpreting Financial and Accounting Information	49%
<b>Part Two</b>	
Boardroom Dynamics	63%
Hong Kong Taxation	33%
Risk Management	20%
Strategic Management	50%

#### Module Prize and Merit Certificate awardees

The Institute is pleased to announce the following awardees of the Module Prizes and Merit Certificates for the November 2022 examination diet. The Module Prizes are sponsored by The Hong Kong Chartered Governance Institute Foundation Ltd. Congratulations to all awardees!

Module	Module Prize awardees
Boardroom Dynamics	But Ngo Suet
Corporate Governance	Yang Na
Interpreting Financial and Accounting Information	Leung Yim Ting
Interpreting Financial and Accounting Information	Sze Ting Yee

Module	Merit Certificate awardees
Boardroom Dynamics	Shi Qing
Corporate Governance	Chan Ching Fei, Vanissa
Corporate Governance	Cheng Ye
Corporate Governance	Leung Ka Lai
Corporate Governance	Leung Tze Ying, Gwen
Corporate Governance	Sze Hau Ling
Corporate Governance	Tsang Kwok Chun, Alan
Corporate Governance	Tracey Anne Turner
Corporate Governance	Ye Ling
Corporate Governance	Yin Shaomei
Corporate Secretaryship and Compliance	Cheung Long Ching, Terry

## Chartered Governance Qualifying Programme (CGQP) (continued)

### June 2023 examination diet timetable

The June 2023 examination diet of the CGQP is open for enrolment from 1 February to 27 March 2023. All examination enrolments must be made online via the Login area of the Institute's website.

#### Week one

Time	5 June Monday	6 June Tuesday	7 June Wednesday	8 June Thursday
9.15am–12.30pm*	Hong Kong Taxation	Hong Kong Company Law	Interpreting Financial and Accounting Information	Corporate Secretaryship and Compliance

#### Week two

Time	12 June Monday	13 June Tuesday	14 June Wednesday	15 June Thursday
9.15am–12.30pm*	Corporate Governance	Risk Management	Strategic Management	Boardroom Dynamics

\* Including 15 minutes reading time (9.15am–9.30am).

The Institute reserves the right to change the dates and details without prior notice.

For enquiries, please contact the Education and Examinations Section: 2830 6010, or email: [exam@hkcgj.org.hk](mailto:exam@hkcgj.org.hk).

### Learning support CGQP examination technique workshops

The two-part examination technique workshops for the CGQP June 2023 examinations will be held online between late March and late April 2023. In part one, students will attend a two-hour online workshop and receive one take-home mock examination paper. In part two, students who have attended and submitted their answers to the mock examination paper will receive feedback and further guidance. The enrolment deadline is 27 March 2023.

For details, please visit the News & Events section of the Institute's website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).

### Call for support: Student Ambassadors Programme summer internship 2023

The Institute's Student Ambassadors Programme 2022/2023 is designed to attract undergraduates to learn more about the Institute's dual qualification of Chartered Secretary and Chartered Governance Professional. The Institute is inviting companies and organisations to offer summer internship positions to 85 student ambassadors this year.

The internship period is usually from June to August 2023, and there is flexibility for an intern period of up to a maximum of eight weeks.

If members are interested in offering summer internship positions and would like more details, please visit the News & Events section of the Institute's website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).

For enquiries, please contact Shalom Li: 2830 6001, or email: [shalom.li@hkcgj.org.hk](mailto:shalom.li@hkcgj.org.hk).



## Studentship activities: February 2023

21 February

The Hang Seng University of Hong Kong careers fair and careers talk



22 February

Student Ambassadors Programme 2022/2023: experience sharing on internship and workplace etiquette



28 February

Hong Kong Shue Yan University careers fair



## Notice

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### Update of the CGQP syllabus and study materials

The syllabus for the following CGQP modules has been updated. With effect from the June 2023 examination diet and onwards, the new syllabus will be incorporated into the following examinations:

- Hong Kong Company Law
- Hong Kong Taxation

*For details, please visit the Syllabus page under the Chartered Governance Qualifying Programme subpage of the Studentship section of the Institute's website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).*

The online study materials for the following CGQP modules have been updated:

- Boardroom Dynamics (Hong Kong supplement)
- Corporate Governance (Hong Kong supplement)
- Corporate Secretaryship and Compliance
- Risk Management (Hong Kong supplement)

*For details, please visit the Online Study Materials page under the Learning Support subpage of the Studentship section of the Institute's website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).*

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### Featured job openings

Company name	Position
CLSA Limited	Company Secretarial Officer
Legacy Trust Company Ltd	Company Secretarial Assistant
Mei Services Limited	Company Secretarial Officer
NagaCorp Ltd	Assistant Company Secretary / Assistant Company Secretarial Manager
The Hong Kong Chartered Governance Institute	Officer, Administration (Ref: OA 2023)
The Hong Kong Chartered Governance Institute	Senior Officer, Education and Examinations (Ref: EE2023-03)
Sun Hing Holdings Ltd	Company Secretarial Officer (Admiralty)

*For details of job openings, please visit the Jobs in Governance section of the Institute's website: [www.hkcgj.org.hk](http://www.hkcgj.org.hk).*

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## ECPD Videos on Demand

### What's New:

Cross Border Data Transfers – Practical  
Sharing and Risk Mitigation

Valuation in Practice: From Fundraising  
to IPOs and Beyond

Decoding Startup Investment and  
Common Governance Issues of Early  
Stage Companies

### Insolvency/Liquidation Series:

Recent Developments on Insolvency and  
Restructuring under the Companies  
Ordinance (Cap. 622)

Dissolution of HK Private Company –  
Liquidation vs Deregistration

Voluntary Liquidation – Case Study of  
Wholly Foreign Owned Enterprise

Anytime anywhere at your convenience

Register  
*now!*



For more details, please check the Professional Development section of HKCGI website: [www.hkcgi.org.hk](http://www.hkcgi.org.hk)

Enquiries: 2830 6011 / 2881 6177 / [cpd@hkcgi.org.hk](mailto:cpd@hkcgi.org.hk)

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