

LEVEL 7 ASSESSMENT SPECIFICATION

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University of Wales Trinity Saint David

HKBM7000 Approaches to Research and Academic Communication

Research Proposal

A critical analysis of the “comply or explain” approach to corporate governance in Hong Kong

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1. INTRODUCTION

1.1 Importance of good corporate governance

Although there is no universal definition of corporate governance, it is generally defined as the system by which companies are directed and controlled (Cadbury, 1992). More precisely, “corporate governance describes the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations” (The Hon Justice Owen, 2003, p. xxxiii).

It is evidenced that “good corporate governance practices contribute towards the overall well-being of a financial system” (Low, 2004, pp. 165-166). As an international financial centre, good corporate governance practices at listed companies in Hong Kong are particularly important. Research results show that good corporate governance practices are consistent with value maximization of listed companies in Hong Kong (Cheung *et al.* 2007) and those companies that exhibit improvements in the quality of corporate governance practices display a subsequent increase in market valuation (Cheung *et al.* 2011). In addition, good corporate governance promotes investor confidence, which is critical to the companies listed on the stock exchange to compete in capital (ASX Corporate Governance Council, 2019).

The Hong Kong Institute of Chartered Secretaries conducted a survey namely “Taking the temperature: the state of corporate governance practices in Hong Kong and the Mainland” in 2019 seeking insights from its members into current corporate governance practices, policies and attitude. It was found that the benefits of good corporate governance are perceived to lie in better risk management and operational efficiencies and corporate governance requirements are expected to increase substantially in the next five years (The Hong Kong Institute of Chartered Secretaries, 2019).

1.2 Research background - Existing regulatory framework and approach

The corporate governance regime for companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”) is the Corporate Governance Code (the “CG Code”) and Corporate Governance Report in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The CG Code and Listing Rules provide a regulatory framework to achieve a corporate governance standard which is in line with international best practices.

Listed companies must include a Corporate Governance Report in their annual reports under paragraph 34 of Appendix 16 to the Listing Rules. The Corporate Governance Report must contain all the information set out in paragraphs G to Q of Appendix 14 to the Listing Rules.

The CG Code sets out the principles of good corporate governance followed by the code provisions and recommended best practices. Paragraph 1 of Appendix 14 to the Listing Rules provides that the CG Code operates on a “comply or explain” approach. As a result, listed companies are required to comply with the code provisions but may choose to deviate from them. Any deviations from the code provisions are acceptable provided that listed companies give reasons for deviations because the SEHK does not envisage a “one size fits all” approach. Moreover, the recommended best practices are not mandatory rules but for guidance only. Consequently, different listed companies may have different levels of corporate governance compliance.

The SEHK has published a “Guidance for boards and directors” (the “Guidance”) in July 2018 containing practical advice to directors which should help them perform their role and responsibilities (The Stock Exchange of Hong Kong Limited, 2018b). However, the Guidance does not form a part of the Listing Rules or amend any requirements of the Listing Rules. There is a clear support for the proposed amendments to the Listing Rules and the Corporate Governance Code for the enhancement of corporate governance framework in Hong Kong (The Stock Exchange of Hong Kong Limited, 2018a).

2. LITERATURE REVIEW

Allen (2014) argues that many listed companies are mainly just complying with the corporate governance rules instead of trying to implement those rules in the spirit in which they are intended and it is the triumph of form over substance. Hong Kong Institute of Certified Public Accountants has also found that many listed companies use a “box ticking” approach instead of disclosure meaningful corporate governance information in their annual reports (Hong Kong Institute of Certified Public Accountants, 2014).

The Hong Kong Institute of Chartered Secretaries raises awareness of the importance of good corporate governance which must evolve to reflect the rapid changes on business environment facing with challenges and opportunities in the digital age (The Hong Kong Institute of Chartered Secretaries, 2018). However, it is argued that the gradualist pace and slow change of corporate governance regulation in Hong Kong may be due to high legal transaction costs including the costs of learning, experimenting and satisfying various constituencies (Bryane and Goo, 2017).

Research results show that the corporate culture and structure of listed companies in Hong Kong are quite unique with a strong traditional Chinese management culture and a high level of managerial family ownership (Miller, 1998). The corporate governance in Hong Kong has some features that other international financial centres do not have such as an obvious link between corporate

governance quality and shareholder value, dominant and probably value-decreasing family control and value-diminishing shareholders concentration (Michael and Goo, 2015).

It is argued that an effective board is at the centre of good corporate governance (Charltons, 2018). The board consists of different types of directors namely executive directors, non-executive directors and independent non-executive directors (“INEDs”). All directors are subject to the same legal duties under section 465 of the Companies Ordinance (Cap. 622) but they have different roles and functions in corporate governance.

INEDs have become an established element of effective corporate governance regime providing an independent check and balance (The Hong Kong Institute of Chartered Secretaries, 2006).

However, the challenges faced by INEDs grow out of a corporate governance setting where boards are typically controlled by the founding family in which whether they perform the role of check and balance as well as can add any value or effect any positive change (The Hong Kong Institute of Directors, 2012).

The importance of INEDs in listed companies is regarded as a means of setting and maintaining standards of corporate governance, the need for improved disclosure and for better reporting and financial information (Butcher, 2000). It is argued that mechanisms to protect shareholders from potential abuses of the board must be improved including important functions to be performed by INEDs and corporate governance related transparency (Johnstone and Goo, 2017).

In respect of the issues of INEDs, various proposals have been made by the SEHK to enhance transparency and accountability of the nomination and election process of INEDs, improve transparency of INEDs’ relationship with listed companies as well as strengthen the independence criteria in assessing potential INED candidates (The Stock Exchange of Hong Kong Limited, 2017).

The chairman is responsible for the management of the board whereas the chief executive is responsible for the management of the day-to-day business. There should be a clear division of these responsibilities to ensure a there is a check and balance of power and authority (A.2 of Appendix 14 to the Listing Rules). Heaney (2009) finds that the duality of chairman and chief executive is common in the board composition in Hong Kong. Under the duality of chairman and chief executive, all management powers are concentrated in an individual. As such, the board may not effectively lead the monitoring functions resulting in bad corporate governance practices.

Notwithstanding the public expectations about corporate governance in protecting the interests of the shareholders and the company as a whole, the effectiveness of the board in monitoring the company is in question. In response to criticisms about the effectiveness of the board, the segregation of chairman and chief executive has been advocated as an important reform in

corporate governance (Chan *et al.* 2011). “Without proper monitoring mechanisms in place, the board of directors tends to act for their self-interest and rarely looks after the needs of the stakeholders” (Brennan, 2003, p. 42).

One of the board’s major functions is to assess and monitor the performance of management, the chairman being an independent non-executive director is a necessity but not merely desirable (Pease and McMillan, 1993). Companies with an independent board and greater concentration of ownership were better able to defend themselves and to self-regulate (Cheng *et al.* 2015).

Institutional investors have an important role to play in corporate governance (Ashworth and Mo, 2020). La Porta *et al.* (2000) argues that regulation protecting investors’ interests will promote good corporate governance practices as well as enhance investor confidence. Investor confidence as an expression of willingness to invest in a share market implying that more investor confidence would result in a strong share market (Lee and Shailer, 2005).

3. RESEARCH OBJECTIVES

There are three research objectives of this study as follows:

- (1) To investigate and examine whether there is any relationship between the level of corporate governance compliance and the board independence;
- (2) To investigate and examine whether there are any company specific factors (such as the number of listing years, profitability, company size, growth rate and level of debt) which may affect the company’s decisions on the level of corporate governance compliance; and
- (3) To investigate and examine whether there is any relationship between the level of corporate governance compliance and the share price volatility.

4. RESEARCH QUESTION 1 AND HYPOTHESES:

CORPORATE GOVERNANCE COMPLIANCE AND BOARD INDEPENDENCE

As discussed previously, good corporate governance practices are very important for listed companies in Hong Kong. The higher level of corporate governance compliance means better corporate governance practices. It is argued that the board structure, composition and diversity in terms of independence greatly affect the level of corporate governance compliance (Ho and Wong, 2001). Research results indicate that institutional ownership exerts a direct and significant influence on corporate governance in board composition and the existence of duality of chairman and chief executive (Li *et al.* 2006). This study investigates whether there is any relationship between the level of corporate governance compliance and the board independence. As such, the following Research Question 1 has been constructed.

Research Question 1

Has the level of board independence affected the company's decisions on complying with the corporate governance code provisions related under "Part A – Directors" of Appendix 14 to the Listing Rules?

In order to address to Research Question 1, a multiple regression model is used to investigate whether there is any relationship between the level of corporate governance compliance and the proportion of INEDs on the board, existence of duality of chairman and chief executive and chairman is an INED in this study.

Dependent variable

The dependent variable in this study is the level of compliance with corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules with altogether 38 corporate governance code provisions. For each corporate governance code provision, the dependent variable has a dichotomous categorical outcome namely compliance or non-compliance. Data are coded with "1" for compliance and "0" for non-compliance. As such, a compliance index score ranging from zero to 38 can be constructed. A higher compliance index score means a better corporate governance.

Independent variables

Three variables in terms of the board independence namely the proportion of INEDs on the board, existence of duality of chairman & chief executive and the chairman is an INED which may influence the company's decisions on complying with corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules are investigated in this study. The following three testable hypotheses are constructed in relation to Research Question 1.

(1A) Proportion of INEDs on the board

The board consists of executive directors, non-executive directors and INEDs. It is a mandatory requirement that a listed company must appoint INEDs representing at least one-third of the board (Listing Rules 3.10A). In addition, the board must include at least three INEDs out of which at least one of them must have appropriate professional qualifications (Listing Rule 3.10).

The board should include a balanced composition of executive directors, non-executive directors and INEDs which can effectively exercise independent judgement on business affairs. As such, it is important that there is a strong independent element on the board. A higher proportion of INEDs indicates a greater degree of board independence which results in listed companies that are better governed in terms of the level of the protection of minority interests (Lei and Song, 2012)

Hypothesis 1A

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules increases with an increase in the proportion of INEDs on the board.

(1B) Existence of duality of chairman and chief executive

It was found by the SEHK in November 2018 that the lowest compliance rate was A.2.1 of Appendix 14 to the Listing Rules in respect of the separation of the roles of chairman and chief executive (The Stock Exchange of Hong Kong Limited, 2018c). Lacking of separation of duties, the duality of chairman and chief executive may greatly affect the level of corporate governance compliance.

As this is a categorical variable, a special variable called a dummy variable is to be used. A dummy variable is assigned a value of 1 if a particular condition is met; otherwise a value of zero is assigned (Render *et al.* 2012, p. 151). The use of a dummy variable allows us to include a categorical independent variable as part of the multiple regression model. In this study, there are two categorical variables as follows:

- (i) The roles of chairman and chief executive are performed by the same person;
- (ii) The roles of chairman and chief executive are not performed by the same person.

Therefore, only one dummy variable needs to be used in this case.

$X_2 = 0$ if the roles of chairman and chief executive are not performed by the same person;

$X_2 = 1$ if the roles of chairman and chief executive are performed by the same person.

Hypothesis 1B

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules decreases if the roles of chairman and chief executive are performed by the same person.

(1C) Chairman is an INED

Directors have to meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. (A.1.1 of Appendix 14 to the Listing Rules). To promote check and balance on the executives, the chairman should hold meetings solely with INEDs at least once a year without the presence of other directors (A.2.7 of Appendix 14 to the Listing Rules). As such, if the chairman who is not an INED may greatly affect the level of corporate governance compliance.

As this is a categorical variable, a special variable called a dummy variable is to be used. A dummy variable is assigned a value of 1 if a particular condition is met; otherwise a value of zero is assigned (Render *et al.* 2012, p. 151). The use of a dummy variable allows us to include a categorical independent variable as part of the multiple regression model. In this study, there are two categorical variables as follows:

- (i) The chairman is an INED;
- (ii) The chairman is not an INED.

Therefore, only one dummy variable needs to be used in this case.

$X_3 = 0$ if the chairman is not an INED;

$X_3 = 1$ if the chairman is an INED.

Hypothesis 1C

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules increases if the chairman is an INED.

5. RESEARCH QUESTION 2 AND HYPOTHESES:

FACTORS AFFECTING THE LEVEL OF CORPORATE GOVERNANCE COMPLIANCE

As stated in the paragraph 1 of Appendix 14 to the Listing Rules, the SEHK does not envisage a “one size fits all” approach to corporate governance. That means listed companies may choose to comply with the corporate governance code provisions or adopt any alternative arrangements provided that they give reasons for derivations. Therefore, the choices of corporate governance practices may be related to company specific factors. This study investigates whether there are any company specific factors which may affect the company’s decisions on the level of corporate governance compliance. As such, the following Research Question 2 has been constructed.

Research Question 2

Have any company specific factors affected the company’s decisions on complying with corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules?

This study uses the multiple regression model to determine which specific factors (independent variables) are statistically correlated with the company’s decisions on complying with corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules. In this study, five company specific factors namely the number of listing years, profitability, company size, growth rate and level of debt which may influence the company’s decisions on complying with

corporate governance codes under “Part A – Directors” of Appendix 14 to the Listing Rules are investigated.

Dependent variable

The dependent variable in this study is the company’s level of compliance with corporate governance codes under “Part A – Directors” of Appendix 14 to the Listing Rules with altogether 38 corporate governance code provisions. For each corporate governance code provision, the dependent variable has a dichotomous categorical outcome namely compliance or non-compliance. Data are coded with “1” for compliance and “0” for non-compliance. As such, a compliance index score ranging from zero to 38 can be constructed. A higher compliance index score means a better corporate governance.

Independent variables

The following five testable hypotheses are constructed in relation to Research Question 2.

(2A) Number of listing years

This independent variable is measured in terms of the logarithm of the number of years of which the company has been listed on the Main Board of the SEHK. It is argued that a company with a long history of listing should have developed a more well-structured corporate governance system based on the accumulation of knowledge and experience. In addition, the management may incline to achieve a higher level of corporate governance compliance in order to maintain the reputation. Consequently, a company with a longer history of listing may incline to have a higher level of corporate governance compliance.

Hypothesis 2A

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules increases with an increase in the number of listing years.

(2B) Profitability

This independent variable is measured in terms of return on assets which is calculated as the net profit after tax divided by total assets. It has been argued that investors may adopt financial performance of a company as a proxy to determine the merits of corporate governance non-compliance (MacNeil and Li, 2006). Investors may tolerate corporate governance non-compliance as far as the company is profitable. Therefore, it is argued that the company may take such advantage for not complying with some corporate governance code provisions.

Hypothesis 2B

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules decreases with an increase in profitability.

(2C) Company size

This independent variable is measured in terms of the logarithm of total assets of the company as at the year-ended reporting date. Compliance with corporate governance best practices is both costly and logistically (Krishnan *et al.* 2008). Larger companies tend to have more resources required to meet those corporate governance compliance challenges. In addition, a larger company normally has a more diffused ownership structure. It is argued that the management may incline to demonstrate to diversified shareholders that the company has good corporate governance practices.

Hypothesis 2C

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules increases with an increase in company size.

(2D) Growth rate

This independent variable is measured in terms of the annual growth rate in the company’s total assets. As a growing company is in need of additional capital to fund their business, it is argued that the management may incline to demonstrate to the creditors and investors that the company has good corporate governance practices.

Hypothesis 2D

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules) increases with an increase in the growth rate.

(2E) Level of debt

This level of debt can be found by dividing the company’s total long-term debt by its total assets. A higher level of debt makes it more likely that the company will have difficulties in meeting its debt obligations and resulting in making the company’s shares riskier (Titman *et al.* 2016). The higher is the level of debt, the higher is the level of investment risk. As such, it is argued that the management of a company with a high level of debt may incline to demonstrate to its creditors and investors that the company has good corporate governance practices.

Hypothesis 2E

H₀: The level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules) increases with an increase in the level of debt.

6. RESEARCH QUESTION 3 AND HYPOTHESES:

CORPORATE GOVERNANCE COMPLIANCE AND SHARE PRICE VOLATILITY

A lower share price volatility means a lower investment risk. As institutional investors with more confidence are more willing to invest in a well-informed share market with greater transparency and accountability, the share prices are expected to be more stable as they are looking for a long term capital growth instead of seeking short term speculative profits. That is, the volatility of share price is expected to be lower reflecting a lower investment risk due to stable share transactions. Hence, the share price volatility reflecting the investment risk can be used as a proxy for investor confidence. The corporate governance code provisions which have been designed to enhance the company's corporate governance credibility. Therefore, it is probable that a higher level of compliance with the corporate governance code provisions may improve investor confidence which will be ultimately reflected in a lower share price volatility with a lower level of investment risk. It is hypothesised that the improved investor confidence will result in a lower share price volatility.

This study investigates whether there is any relationship between the level of compliance with the corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules and the share price volatility. As such, the following Research Question 3 has been constructed.

Research Question 3

Has the level of compliance with the corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules affected the share price volatility?

In order to address to Research Question 3, a regression model is used to investigate whether there is any relationship between the share price volatility and the level of compliance with corporate governance code provisions under "Part A – Directors" of Appendix 14 to the Listing Rules.

Dependent variable

The dependent variable is the historical share price volatility. In this study, the share price volatility is measured as the standard deviation of the movements in the share prices. Historical share price information of listed companies can be downloaded from the website of the Hong Kong Exchanges and Clearing Limited.

Independent variable

The independent variable in this study is the company's level of compliance with corporate governance codes related to directors under "Part A – Directors" of Appendix 14 to the Listing Rules with altogether 38 corporate governance code provisions. For each corporate governance

code provision, the independent variable has a dichotomous categorical outcome namely compliance or non-compliance. Data are coded with “1” for compliance and “0” for non-compliance. As such, a compliance index score ranging from zero to 38 can be constructed. A higher compliance index score means a better corporate governance.

Hypothesis 3

H₀: The share price volatility decreases with an increase in the level of compliance with the corporate governance code provisions under “Part A – Directors” of Appendix 14 to the Listing Rules.

7. DATA COLLECTION AND ANALYSES AND REPORT

7.1 Data collection and processing

Financial, non-financial and corporate governance data are obtained from the most recent three years annual reports of the sample listed companies in the Hang Seng Composite Index (Hang Seng Indexes, 2020). Information not available from the annual reports are sourced from other public available information such as the websites of the sample listed companies, professional associations, regulatory bodies, government agencies as well as major accounting & auditing firms. Historical share price information of sample listed companies can be downloaded from website of the Hong Kong Exchanges and Clearing Limited.

7.2 Population of the study

As the SEHK does not envisage a “one size fits all” approach to corporate governance which is designed to allow a certain extent of flexibility to reflect the wide diversity of companies with various sizes in different industries. The Hang Seng Composite Index (“HSCI”) offers a comprehensive Hong Kong market benchmark covering about the top 95th percentile of the total market capitalisation of companies listed on the Main Board of the SEHK (Hang Seng Indexes, 2020). Such index is subdivided into 12 Hang Seng Composite Industry Indexes (“HSCIs”) reflecting the performance of different industry sectors. Hence, the population of this study consists of all listed companies in the HSCI with a total of 476 listed companies.

7.3 Sample and sampling technique

There are two major classifications of sampling techniques namely nonprobability and probability sampling techniques. Samples chosen in non-probability sampling are without knowing the probabilities of election. Non-probability samples can have certain advantages in terms, convenience, speed and lower cost. However, their lack of accuracy due to selection bias and the poorer capacity to provide generalised results more than offset these advantages (Berenson *et al.*

2009, pp. 212-213). Probability sampling techniques vary in the costs, accuracy and complexity. Samples chosen in probability sampling techniques are based on known probabilities allowing us to make inferences about the parameter of the population.

This study uses stratified sampling which is one of the probability sampling techniques. As such, the population is divided into different industry sectors. The homogeneity of companies within each industry sector provides greater precision in the estimates of the population parameters. Thus, the population of 476 listed companies under the HSCI is divided into 12 different industry sectors. The number and percentage of listed companies in different sectors are calculated accordingly as shown in Appendix (Table 1).

7.4 Sample size

In order to determine the sample size, the desired confidence level, sampling error and standard deviation need to be considered (Selvanathan and Selvanathan, 2011, pp. 407-411). According to a table provided by Krejcie and Morgan (1970) at a confidence level of 95%, 214 samples are required based on the total population size of 476 listed companies in this study. For the purposes of collecting a stratified sample proportional to the sizes of the industry sectors, the numbers of listed companies to be chosen for each of the industry sector are calculated as shown in Appendix (Table 1).

7.5 Sample selected

Owing to the number of listed companies for each industry sector is rounded up, a total sample size of 220 listed companies, which is more than 214 as required, is chosen. Having determined the number of listed companies for each industry sector, the corresponding numbers of random numbers are generated by MS Excel based on the three-digit code numbers in each industry sector.

8. EXPECTED FINDINGS AND RECOMMENDATIONS

The expected findings for each of the proposed hypotheses are as follows:

Hypothesis 1A – The level of compliance with the corporate governance code provisions is positively correlated with the proportion of INEDs on the board.

Hypothesis 1B – The level of compliance with corporate governance code provisions is negatively correlated with the same person performing the roles of chairman and chief executive.

Hypothesis 1C – The level of compliance with corporate governance code provisions is positively correlated with the chairman who is an INED.

Hypothesis 2A - The level of compliance with corporate governance code provisions is positively correlated with the number of listing years

Hypothesis 2B - The level of compliance with corporate governance code provisions is negatively correlated with profitability.

Hypothesis 2C - The level of compliance with corporate governance code provisions is positively correlated with company size.

Hypothesis 2D - The level of compliance with corporate governance code provisions is positively correlated with the growth rate.

Hypothesis 2E - The level of compliance with corporate governance code provisions is positively correlated with the level of debt.

Hypothesis 3 – The share price volatility is negatively correlated with the level of compliance with corporate governance code provisions.

Based on the findings in the study, recommendations can be made for:

- (1) considering whether there is a need of reform in the “comply or explain” approach to corporate governance in Hong Kong;
- (2) improving the corporate governance practices in Hong Kong in particular the regulatory framework and requirements in terms of the board independence in relation to the board structure, composition and diversity;
- (3) enhancing good corporate governance practices in Hong Kong with greater transparency and accountability in order to increase the investor confidence on the financial market in Hong Kong; and
- (4) amending the corporate governance code provisions in Hong Kong in line with good international practices.

9. CONCLUSION

This study examines whether there is any relationship between the level of corporate governance compliance with the board independence in particular the proportion of INEDs on the board, existence of duality of chairman & chief executive and chairman who is an INED. In addition, this study further investigates whether any company specific factors namely the number of listing years, profitability, company size, growth rate and level of debt are associated with the level of corporate governance compliance. Finally, this study explores whether the share price volatility is correlated with the level of corporate governance compliance.

This study employs various quantitative techniques to test different hypotheses. Based on the research results, recommendations are to be made to the policy makers and listed companies how to

improve the existing corporate governance practices in order to increase the investor confidence on the financial market in Hong Kong. In particular, we should consider whether there is a need of reform in the “comply or explain” approach to corporate governance in Hong Kong, how to improve the existing regulatory framework and requirements of corporate governance practices in terms of the board independence in relation to the board structure, composition and diversity, how to enhance good corporate governance practices in Hong Kong with greater transparency & accountability and whether the existing corporate governance practices in Hong Kong are required to be amended in line with international practices.

Unavoidably, this study is not without any limitations. This study examines the level of corporate governance compliance of listed companies on the Main Board of the SEHK but not on the Growth Enterprise Market of the SEHK. The company’s decisions on the level of corporate governance compliance may be different in the two distinguished listed groups of companies. As discussed previously, the SEHK does not envisage a “one size fits all” approach and deviations from corporate governance code provisions are acceptable if listed companies consider that there are more suitable ways for them to comply with the principles under the paragraph 1 of Appendix 14 to the Listing Rules. Consequently, listed companies which choose to deviate from the corporate governance code provisions but with detailed and informative explanations provided should not necessarily mean that they have a low level of corporate governance compliance. As such, further research areas can be explored in the future.

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APPENDIX (TABLE 1)

Hang Seng Composite Industry Index	Number of companies	Percentage of companies*	Codes of three-digit numbers^	Number of samples# (percentage of companies x sample size of 214)
Consumer Discretionary	92	19%	001 - 092	41
Consumer Staples	25	5%	093 - 117	11
Healthcare	36	8%	118 - 153	18
Conglomerates	9	2%	154 - 162	5
Information Technology	38	8%	163 - 200	18
Properties & Construction	97	20%	201 - 297	43
Financials	54	11%	298 - 351	24
Utilities	32	7%	352 - 383	15
Telecommunications	10	2%	383 - 393	5
Industrials	45	10%	394 - 438	22
Materials	24	5%	439 - 462	11
Energy	14	3%	463 - 476	7
Total	476	100%		220

* Figures in percentage of companies are rounded.

^ Codes of three-digit numbers ranging from “001” to “476” are assigned.

Figures in number of samples are rounded up to the nearest whole numbers.