

## **New Survey Finds Senior Executives In Hong Kong Believe Public Companies Could Be Doing More To Strengthen Corporate Governance**

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Jardine Lloyd Thompson Ltd survey finds increased risk of liability for Directors and Officers in the face of escalating demands for stronger standards of corporate governance -

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**HONG KONG, 24 September 2003** - A new survey of senior executives of Hong Kong listed companies has found that 91% of respondents believe that publicly listed companies in Hong Kong could be doing more to raise their corporate governance standards. The majority (87%) of respondents are also of the view that higher standards of corporate governance being demanded by shareholders and regulatory authorities have increased liability for directors and officers.

The survey, which was carried out by Policy 21, a research institute of The University of Hong Kong, from June through September 2003, was based on a questionnaire completed by directors, company secretaries, chief financial officers and chief compliance officers of 270 publicly listed companies across a full spectrum of industries in Hong Kong. A number of in-depth one-on-one interviews were also conducted.

Mr Simon Weaver, Managing Director of Jardine Lloyd Thompson ("JLT") in Hong Kong, explained, "The focus of this survey was to capture attitudes towards corporate governance and purchase patterns of Directors and Officers Liability insurance, in order to better understand the issues and risks facing directors of publicly listed companies in Hong Kong."

Commenting on the results, Mr Weaver said, "Increasingly companies in Hong Kong will need to provide Directors and Officers liability cover to meet the rising levels of risk stemming from demands for more stringent levels of corporate governance. As competition for a restricted supply of high-quality directors in Hong Kong increases, it will be difficult for companies to attract good directors without effective risk management and insurance protection."

### **The current corporate governance environment in Hong Kong**

Consistent with the view that Hong Kong companies could be doing more to strengthen corporate governance, the majority (88%) of respondents believe that there is substantial diversity in the standards of corporate governance among companies within Hong Kong. Reasons cited for this diversity include smaller companies not having a comprehensive system of checks and controls in place, a lack of understanding of the benefits of good corporate governance, and the absence of a corporate governance benchmarking system in Hong Kong.

When comparing Hong Kong to the rest of the world, the majority of respondents (82%) feel that Hong Kong's corporate governance standards are high among Asian countries. Specifically, 60% of respondents consider that Hong Kong's standard is about the same as Singapore's, 50% believe that Hong Kong's standard is higher than that of South Korea, and 33% believe that Hong Kong's standard is higher than Japan's.

However only 40% believe that Hong Kong's standard of corporate governance is comparable to that of the United States or the United Kingdom.

Measures cited by the respondents to strengthen their own company's corporate governance include improving transparency (80%), establishing checks and balances within the company (72%), strengthening the role of independent non-executive directors (65%), increasing oversight by outside, independent professionals (44%) and voluntary disclosure of director's remuneration by position and contingent liabilities (20%).

Over two-thirds of the respondents (68%) believe that Hong Kong's new Securities and Future Ordinance (SFO) will be effective in protecting the interests of investors and minority shareholders (61%). A majority of respondents (66%) also believe that the SFO will encourage the management of public companies to strengthen their corporate governance and prevent market malpractices or manipulation (61%).

### **An increasing risk for Directors and Officers**

The majority (87%) of respondents believe that the risk of liability for Directors and Officers in Hong Kong has increased, and a further 37% consider the risk in the future to be even higher. Despite this, 42% of respondents did not have any Directors & Officers liability insurance.

"When you compare the Hong Kong survey results to a market like the United States where studies show that up to 97 percent of companies have some form of Directors and Officers Liability coverage, it becomes apparent that many Hong Kong directors are leaving themselves increasingly vulnerable in the face of mounting risk," noted Mr. Weaver.

Respondents cited high or very high concern over potential claims from regulators or Government (47%), from institutional investors or banks (39%), from small and minority shareholders (31%), from customers (27%), from competitors (15%), and from employees (15%).

The survey asked respondents to identify the potential areas from which claims would be triggered against directors and officers of publicly listed companies in Hong Kong. The major areas cited were: inadequate and inaccurate disclosure of information (73%), mismanagement leading to poor financial performance (57%), dissatisfaction with merger and acquisition activities (37%), dissatisfaction with the extent of "family" control and influence on management (32%), liability arising from employment practices (31%) and defensive tactics to fend off hostile takeovers (19%).

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### **About Jardine Lloyd Thompson:**

Jardine Lloyd Thompson (JLT) is a leading provider of insurance and risk management expertise in the Asian region. The business has had operations in Asia since 1836. Today, employing over 500 industry professionals in ten Asian countries, JLT is ideally positioned to provide new, innovative solutions that enable our clients to compete more effectively and to have a positive impact to their financial performance.

JLT Asia is also a wholly owned subsidiary of the largest quoted British and European insurance broking group, Jardine Lloyd Thompson Group plc. Employing over 4,000 people in over 100 offices in 30 (32) countries, the Group focuses on business areas where it is or can become a market leader. Additionally, through its relationship with the Jardine Matheson Group of companies, JLT has access to the skills and resources of one of Asia's longest established and most successful businesses.

### **About Policy 21:**

Policy 21 Ltd. is an independent, non-profit-making research institute funded entirely by revenue generated from research projects and wholly-owned by the University of Hong Kong.

The mission of Policy 21 is to provide research services to the community, by conducting practically oriented research through a multi-disciplinary approach, in collaboration with researchers from universities and research institutes in Hong Kong and overseas. Policy 21's four main areas of research services include policy analysis and strategic studies; market research; management consultancy; and information services.