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Annual survey indicates senior Hong Kong executives perceive a substantial diversity of corporate governance standards in Hong Kong

- Senior executives believe that directors and officers continue to face increased risk of liability due to rising demands by shareholders and regulatory authorities -

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HONG KONG, 19 October 2004 – A new survey of senior executives of Hong Kong listed companies has found that 90% of respondents believe there is a substantial diversity in the standards of corporate governance in Hong Kong. Despite this, 67% believe that corporate governance standards of most public companies in Hong Kong have improved over the past 12 to 18 months.

The survey, carried out between June and September 2004, was based on a questionnaire completed by directors, company secretaries, chief financial officers and chief compliance officers of 256 publicly listed companies across a full spectrum of industries in Hong Kong. The survey was commissioned by leading insurance broker Jardine Lloyd Thompson ("JLT"), and conducted by Policy 21, a research institute of The University of Hong Kong.

Mr. Ali Chaudhry, a Director of JLT's Financial Solutions Division, said, "We undertook this survey with a view of tracking how corporate governance issues in Hong Kong have progressed in the last 12 months, and what this means in the context of risks faced by directors and officers of publicly listed companies in Hong Kong. This year's survey indicates that while progress is being made, Hong Kong companies could be doing more to raise their corporate governance performance in the face of more stringent standards being demanded by shareholders and regulatory authorities."

Hong Kong's corporate governance environment in 2004

67% of respondents believe that companies in Hong Kong are taking measures to strengthen corporate governance, an increase from just over half (57%) recorded in JLT's 2003 study. Further to the perception that a diverse range of standards exists, 64% of respondents believe that Red Chip companies face greater corporate governance challenges than other Hong Kong listed companies, while 66% believe companies in this category face greater risks of major corporate scandals.

In terms of the current regulatory environment in Hong Kong:

- The majority (81%) of respondents consider that the proposed enhancements to the regulation of listing announced by the Government in March 2004 represented a positive development from the view of protecting the interests of investors and minority shareholders, as well as increasing corporate governance standards (87%)
- Just under half (49%) of respondents believe that such enhancements would attract additional foreign investment to listed companies in Hong Kong

- 63% of respondents consider that there is a potential conflict of interest in relation to regulatory control being shared by Hong Kong Exchanges and Clearing and the Securities and Futures Commission
- The majority (70%) however consider that this is an acceptable arrangement from the prospective of a listed company

Consistent with the 2003 findings, when comparing Hong Kong to the rest of the world the majority of respondents (78%) feel that Hong Kong's corporate governance standards are high among Asian countries. Specifically, 66% of respondents consider that Hong Kong's standard is about the same as Singapore, while 66% and 78% of respondents consider that Hong Kong's standards are higher than that of South Korea and Taiwan, respectively. However, only 37% of respondents believe that Hong Kong has higher standards than Japan.

Senior executives continue to perceive that Hong Kong's standard of corporate governance as lower than the U.S. and the UK with only 41% (40% in 2003) of respondents agreeing that it is comparable with the two countries. Just over half (52%) of respondents agree that Hong Kong should follow the U.S. in adopting more stringent regulations such as the Sarbanes Oxley Act.

Measures cited by respondents to strengthen their own company's corporate governance include: improving transparency (83%); establishing checks and balances within the company (73%); strengthening the role of independent non-executive directors (62%); and improving disclosure of director's remuneration by position, details of stock options and contingency liabilities (45%). Consistent with the view that corporate governance standards are improving in Hong Kong, the uptake of these measures is perceived to have increased in the last 12 months, particularly in the disclosure of director's remuneration, an area in which 45% of respondents said they had improved, compared to only 20% recorded in last year's study.

Risk for directors and officers perceived to be greater in the future

A majority (87%) of respondents feel that directors and officers in Hong Kong face an increased risk of liability due to more stringent demands by shareholders and regulatory authorities, and a further 39% consider the risk in the future to be even higher. 93% of respondents believe that shareholders and regulatory authorities continue to demand higher standards of corporate governance.

In line with this view, 67% of respondents agree that Director's & Officer's liability ("D&O") insurance is an essential part of a listed company's insurance program while 62% agree that having D&O insurance would help retain experienced directors. Despite this, 40% of respondents did not have any D&O insurance.

"One of the significant findings of this survey is the fact that a majority of respondents understand the importance and relevance of D&O insurance, especially in light of the increasing difficulties faced by public companies in Hong Kong in attracting suitable non-executive Directors," Mr Chaudhry said.

The survey asked respondents to rate the potential areas of claims against directors and officers of public companies in Hong Kong. The major areas cited were: accounting fraud or other types of fraud (67%); inadequate and inaccurate disclosure of information (66%); liability arising from interested party transactions with the company such as the sale or purchase of properties (63%); liability arising from conflict of interest (57%); and liability arising from personal trading in the shares of the company (50%).

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In terms of sources of claims, respondents cited high or very high concern over potential claims from regulators or Government (46%), from institutional investors or banks (34%), from small and minority shareholders (34%), from customers (29%), from employees (21%) and from competitors (20%).

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About Jardine Lloyd Thompson:

Jardine Lloyd Thompson (JLT) is a leading provider of insurance and risk management expertise. Today, employing over 100 industry professionals, JLT is ideally positioned to provide new, innovative solutions that enable our clients to compete more effectively, and to have a positive impact on their financial performance.

JLT is a wholly owned subsidiary of Jardine Lloyd Thompson Group plc. (JLT Group), a leading risk management adviser and insurance and reinsurance broker. JLT Group is quoted on the London Stock Exchange and is one of the largest firms of its type in the world. Employing 5000 personnel, JLT Group operates out of more than 100 offices in over 30 countries worldwide.

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.

Since its establishment in July 2000, Policy 21 has undertaken over 100 projects for government bureaus and departments, NGOs and private corporations, spanning the fields of social and municipal services, education, manpower and human resources development, community studies, health and marketing.

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