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# Corporate Governance in Hong Kong

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# Corporate Governance

- Characteristics of Asian Equity Markets
  - ❑ Single majority shareholder
  - ❑ Family control
  - ❑ Lack of institutional investors
  - ❑ CEO and chairman are not separated
  - ❑ Underdeveloped corporate control market

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# Corporate Governance

- A Successful Market Depends On:
  - 'Right' Regulatory Framework
  - Quality Listed Companies
  - Quality Intermediaries

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# Corporate Governance: 'Right' Regulatory Framework

## ■ Small Shareholders

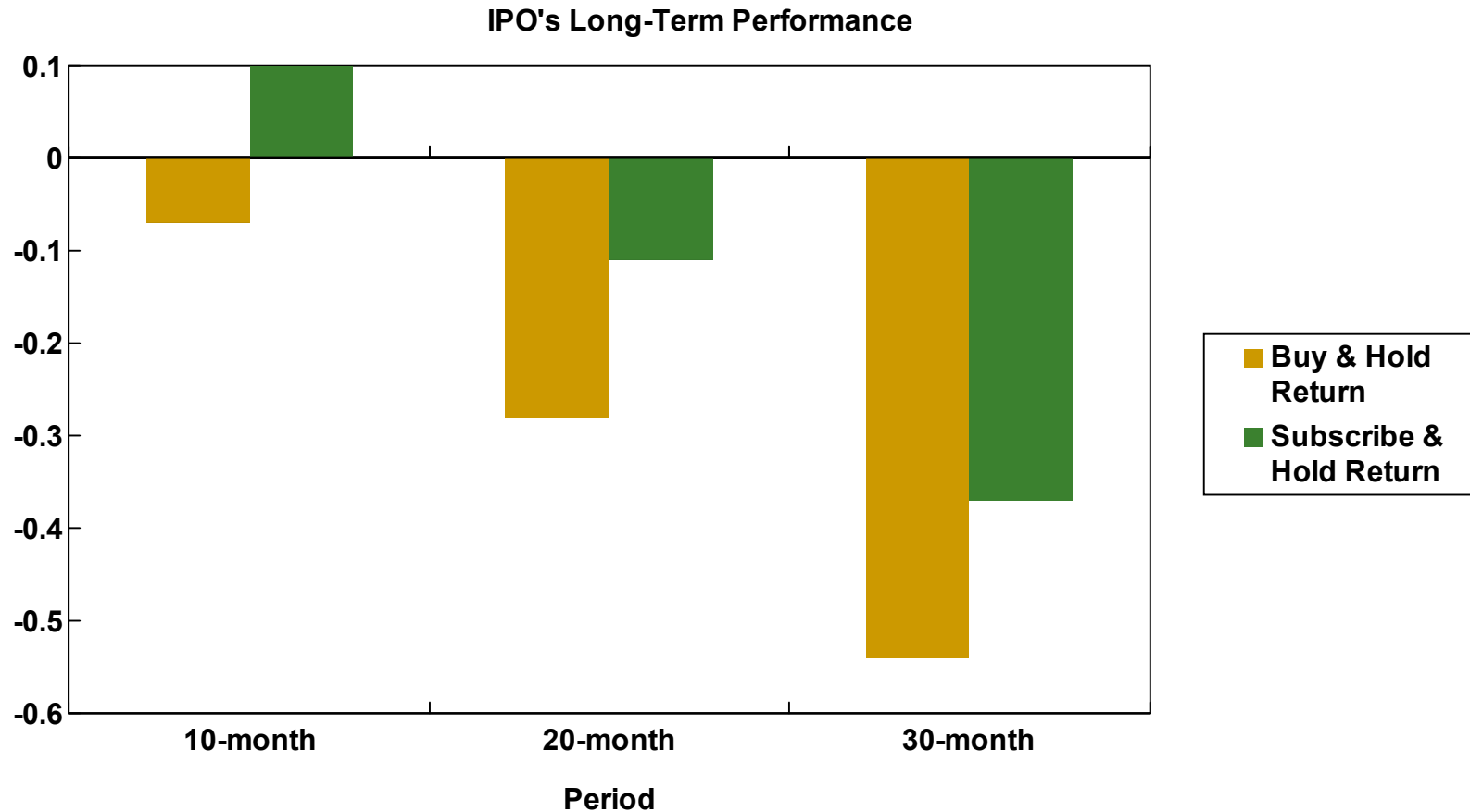
- ❑ Look for short-term capital gain
- ❑ Ignore issues of corporate governance
- ❑ Do not pay attention to shareholder's right
- ❑ Inadequate shareholder protection

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# Corporate Governance: Quality Listed Companies I

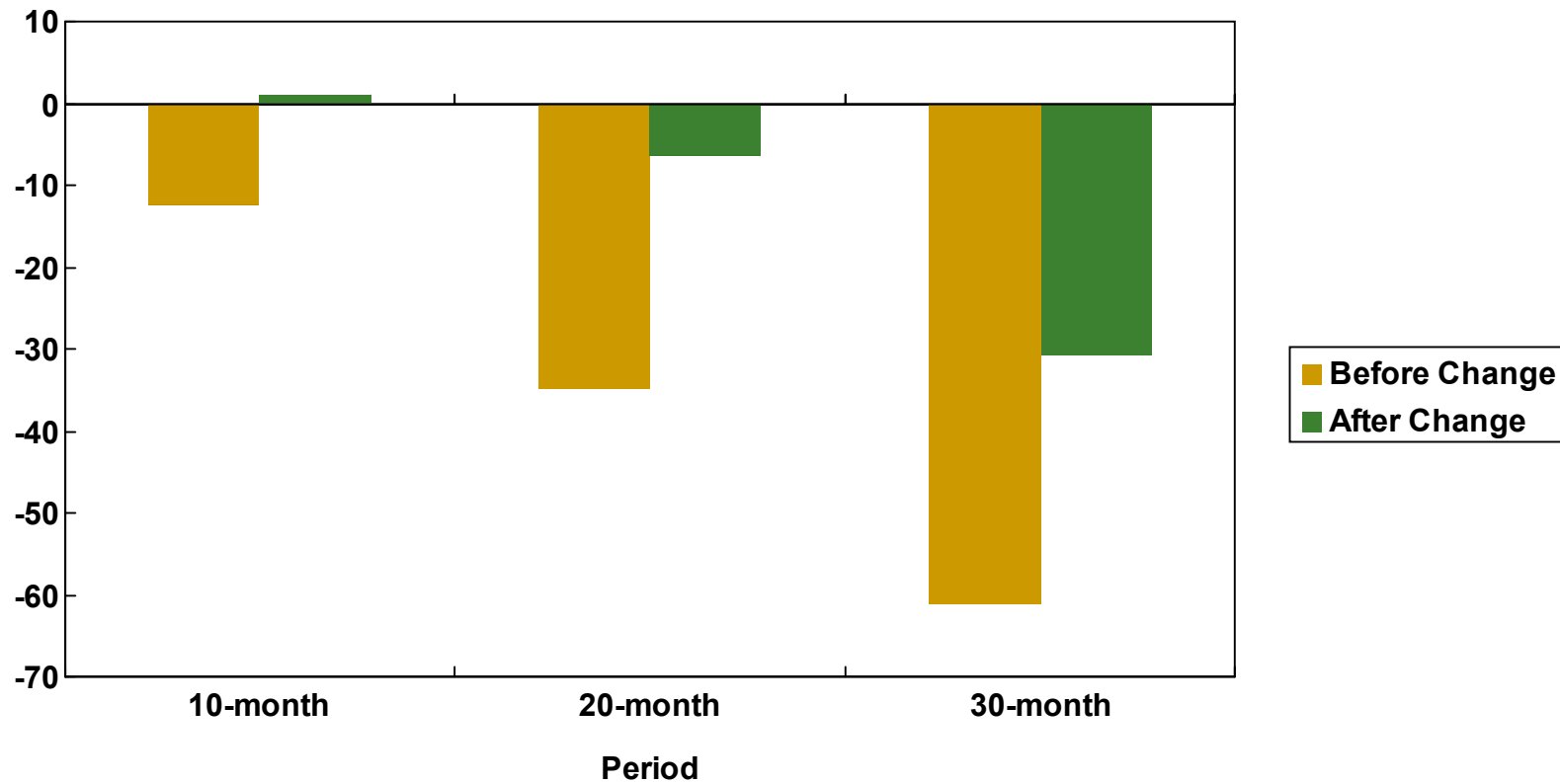
- IPO's Performance
  - Sample period: January 1986 – December 1996
    - 404 IPOs
  - Regulatory change in 1994
    - Requirements on size, pre-listing earning, operating history, etc...
  - Findings:
    - Tougher requirements improve IPO's long-term performance
    - STILL IPO's long-term performance is BAD (similar to other overseas markets)

# Corporate Governance: Quality Listed Companies II



# Corporate Governance: Quality Listed Companies III

IPO's Long-Term Performance (Buy & Hold Return)



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# Corporate Governance: Quality Listed Companies IV

- A successful market does not depend on:
  - ❑ Number of listed companies
  - ❑ Market capitalization
  
- Depends on:
  - ❑ Number of good listed companies
  - ❑ Liquidity
  - ❑ Ability to attract funds



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# Corporate Governance: Quality Listed Companies V

- Relation between director's pay and company's performance
  - Sample period: 1991-1995
  - 10% director's pay > company's earnings
  - No relation

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# Corporate Governance: Quality Listed Companies VI

- Corporate governance
  - Independence of the Board
  - Problem
    - Connected parties transactions
    - Information disclosure

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# Corporate Governance: Quality Listed Companies VII

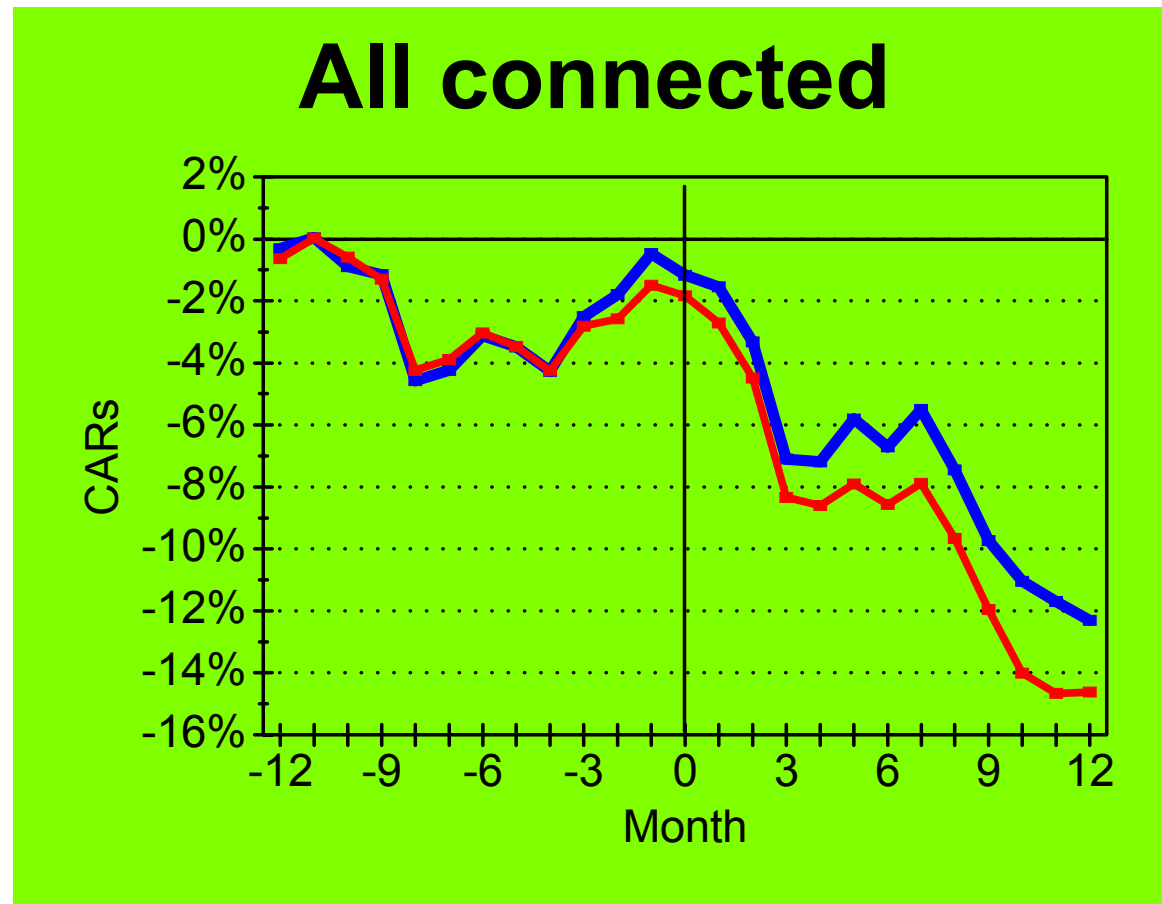
- Connected parties transactions
  - Sample period: 1998-2000
    - All transactions (328)
    - 11 categories including sell stake to parent, sell assets to parent, acquire assets from parent, strategies (JV) deals, etc...

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# Corporate Governance: Quality Listed Companies VIII

- Connected parties transactions
  - Results:
    - CLEAR evidence of expropriation of minority shareholders
    - Degree of expropriation is positively related to the percentage of ownership by the main shareholder
    - Information disclosure about connected transaction appears significant
    - The likelihood of incomplete disclosure is positively related to ownership by the main shareholder

# Corporate Governance: Quality Listed Companies IX



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# Corporate Governance: Quality Listed Companies X

- Enhance independence of the Board
  - Recruitment details of independent non-executive directors
  - Greater transparency
    - Financial
    - Non-Financial
  - Performance evaluation

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# Corporate Governance: Quality Listed Companies XI

## ■ Suggestions

- ❑ Licensing for directors
- ❑ Director's education
- ❑ Scorecard for corporate governance
  - Investors
  - Peer Pressure

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# Corporate Governance: Quality Intermediaries

- Intermediaries
  - Accountants
  - Auditors
  - Lawyers
  - Financial Analysts



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# Conclusion

- Market creditability
- Investor confidence
- Ability for further funding
- Ability to attract quality companies

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~ The End ~

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Thank you