GLASS LEWIS

2020

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

HONG KONG

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Guidelines Introduction

REGULATIONS AND GOVERANCE CODE

Hong Kong corporate governance is centered primarily upon the Companies Ordinance, the Securities and Futures Ordinance, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), and the Corporate Governance Code (the "Code"). In December 2014, the Stock Exchange of Hong Kong Limited ("the Exchange") published amendments to the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Main Board Listing Rules in their consultation conclusions on risk management and internal controls. In 2016, Hong Kong's Securities and Futures Commission ("SFC") published new stewardship guidelines for investors with the launch of its Principles for Responsible Ownership ("the Principles"). In 2018, the Exchange published (i) amendments to the Code and related Listing Rules; and (ii) a new publication "Guidance for Boards and Directors", which provides some practical advice to boards and directors on their roles and responsibilities.

A Board of Directors that Serves the Interests of Shareholders

CORPORATE GOVERNANCE REGULATORY FRAMEWORK

The traditional structure of Hong Kong companies is based on the presence of the board of directors, and three committees thereunder, the audit,[1] remuneration[2] and nomination[3] committees. The board of directors includes executive, non-executive non-independent and independent members. At least one-third of the board of directors must stand for re-election at the general meeting of shareholders, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Listing Rules, an audit committee should consist solely of non-executive directors, a minimum of three members, the majority of whom are independent and both remuneration and nomination committees should consist of a majority of independent directors. All the aforementioned committees should be chaired by independent directors although a nomination committee may be chaired by the chairperson of the board regardless his/her independence status.

BOARD OF DIRECTORS

Glass Lewis looks for talented boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders typically possess the following three characteristics: (i) independence; (ii) a track record of performance; and (iii) a breadth and depth of experience.

In an effort to facilitate shareholder voting in favor of governance structures that will create shareholder value and maintain highly functioning independent board, Glass Lewis looks into various aspects of the board and its committee structure and the qualification of the respective members.

INDEPENDENCE OF DIRECTORS

We look at each individual on the board and examine his or her relationships with the company, the company's executives and other board members. The purpose of this inquiry is to determine whether pre-existing personal, familial or financial relationships (apart from compensation as a director) are likely to impact a board member's decisions. We believe the existence of these types of relationships make it difficult for a board member to put the interests of the shareholders whom he/she is elected to serve above his/her own interest, or those of the related party.

1 The Listing Rules require the committee to be majority independent. Listing Rules, Rule 3.21.

2 Listing Rules, Rule 3.25.

3 Article A.5, Corporate Governance Code.

To that end, we classify directors in three categories based on the type of relationships they have with the company:

Independent Director — An independent director has no material, financial, familial or other current relationships with the company, its executives or board members, and any related entities including substantial shareholder of the company. An individual who has been employed by the company within the previous five years is not considered to be independent. Serving more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his/her further appointment is subject to a separate resolution to be approved by shareholders.[4] Ultimately, criteria for assessing director independence is based a director's track record indicative of making objective decisions as well as the director's compliance with the applicable independence listing requirements.

Affiliated Director — In assessing non-executive non-independence directors, we take into consideration, when appropriate; previous employment relationship between the director and the company, the group or their connected entities within the most recent five years[5]; beneficial ownership in the company or the group; family relationship with the company's insider(s); material interest[6] in any principal business activity; executive position holding in any substantial shareholders, subsidiaries, or related entities; and a director, partner, employee or principal of a professional advisor that provided services or has provided services within the most recent three years to: (i) the company, its holding firm, its subsidiaries, or connected persons; or (ii) any person who was a controlling shareholder, the chief executive or a non-independent director (other than an independent director) of the company or any of their associates.[7] In particular, Glass Lewis believes that a director who owns more than 1%[8] of a company's share capital can exert disproportionate influence on the board and should not serve on the board as an independent non-executive director while the Listing Rules impose over 5% shareholding when assessing a director's independence status. We also believe that the board should include at least one non-executive director with core industry experience. In addition, where we find independent non-executive directors receiving additional compensation in the form of salaries, allowances and/or emoluments that exceed 50% of a director's normal fee-based compensation, we will consider such independent directors as being affiliated.

Insider — An executive director simultaneously serves as a director and employee of the company. This category may include a board chair who acts as an employee of the company or a director paid as an employee of the company.

Voting Recommendations on the Basis of Independence

Every listed issuer in Hong Kong is subject to comply with the Listing Rule 3.10A, a provision mandating one-third independence on the board, as of December 31, 2012. In the event that a board is not sufficiently independent, we recommend voting against certain insiders and/or affiliated directors in order to satisfy the independence threshold. We typically recommend voting against affiliates rather than insiders, but if a significant portion of the board represents an entity, family or persons working together, we may recommend voting against an insider if that director is affiliated with such entities. In addition, where a board is less than

4 Corporate Governance Code Article A.4.3. The papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be re-elected.

5 In our view, a five-year standard is appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look-back period to directors who have previously served as executives of the company on an interim basis for less than one year.

6 Listing Rules, Rule 2.16 For the purpose of determining whether a shareholder has a material interest, relevant factors include: (1) whether the shareholder is a party to the transaction or arrangement or an associate of such a party; and (2) whether the transaction or arrangement confers upon the shareholder or his associate a benefit not available to the other shareholders of the issuer. There is no benchmark for materiality of an interest nor may it necessarily be defined in monetary or financial terms. The materiality of an interest is to be determined on a case by case basis, having regard to all the particular circumstances of the transaction concerned.

7 The Listing Rules use a two-year look-back period for most relationships.

8 We view 1% shareholders as affiliates because they typically have access to and involvement with management in a fundamentally different manner than that of ordinary shareholders. More importantly, 1% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings or personal tax issues.

one-third independent, Glass Lewis recommends shareholders vote against the chair of nomination committee. When the information regarding the chair of nomination committee is not disclosed, we recommend voting against the committee member with the longest tenure on the board. If the board does not have a nomination committee, we believe that the chair of the board should be responsible for the insufficient board independence.

In determining our recommendation as to who we may recommend shareholders vote against for board independence, we will reserve discretion to not recommend against a company's CEO or managing director. In particular, given the importance of the executive's role, if the executive has no other issues that would warrant a negative recommendation, we will exempt such directors from receiving an against recommendation. However, should the executive have additional issues that would warrant an against recommendation, we will generally oppose the reelection of such executives on the basis of the board being insufficiently independent.

INDEPENDENCE OF SUPERVISORS

A decent number of companies that are listed in Hong Kong are also listed on exchanges in mainland China. These dual-listed companies often have a two-tier corporate governance structure that includes a board of supervisors in addition to a board of directors. A board of supervisors normally comprises employee representatives and shareholder representatives. Shareholder representatives may include an independent representative, while most of them are affiliated with the company or its substantial shareholders. The current laws and regulations neither provide any basis for evaluation of supervisor independence nor do they require a supervisor to be independent. However, in order for effective oversight to protect the interests of shareholders, we believe at least one-third of a board of supervisors should be independent. In case a board of supervisors does not meet the minimum independence, we recommend voting against shareholder representative nominees until the board reaches a composition that is one-third independent.

DIRECTOR COMMITMENTS[9]

We believe that directors should have the necessary time to fulfill their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. In addition, recent research indicates that the time commitment associated with being a director has been on a significant upward trend in the past decade. As a result, we generally recommend that shareholders vote against a director who serves as an executive officer of any public company while serving on more than two public company boards and any other director who serves on more than five public company boards. We will count directors who serve as board chairs in select other non-Asian markets, per our global policies, as two board seats given the time commitment of directorship in those markets. Academic literature suggests that one board takes up approximately 248 hours[10] per year of each member's time.

Because we believe that executives will primarily devote their attention to executive duties, we generally will not recommend that shareholders vote against overcommitted directors at the companies where they serve as an executive.

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, the director's board roles at the companies in question, whether the director serves on the board of any large privately-held companies, the director's tenure on the boards in question, and the director's attendance record at all companies.

We may also refrain from recommending against certain directors if the company provides sufficient rationale for their continued board service. The rationale should allow shareholders to evaluate the scope of the directors' other commitments as well as their contributions to the board, including specialized knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors. We will also generally refrain from recommending to vote against a director

9 Directorship and supervisorship in public companies are considered.

10 NACD Public Company Governance Survey 2015-2016. p. 22.

who serves on an excessive number of boards within a consolidated group of companies or a director that represents a firm whose sole purpose is to manage a portfolio of investments which include the company.

PERFORMANCE AND CONFLICT OF INTEREST OF DIRECTORS

We look at the performance of these individuals in their capacity as board members and executives of the company, and in their roles at other companies where they may have served. In addition, irrespective of the overall presence of independent directors on the board, we believe that a board should be wholly free of people who have identifiable conflicts of interest. Accordingly, we recommend shareholders vote against the following types of affiliated or inside directors in nearly all circumstances:

VOTING RECOMMENDATIONS ON THE BASIS OF PERFORMANCE AND CONFLICT OF INTEREST

Professional Services and Business Transactions — We do not believe that a director who has provided material professional services, or a director who is an immediate family member of whom has provided such services, during the last fiscal year or on an ongoing basis, should serve on the board. Material professional services may include legal, consulting or financial services to the company. Also a director who engages – or has a family member of whom engages – in business contracts with the company such as purchase or sales agreement will have to make unnecessarily complicated decisions that may pit their interests against those of the shareholders they serve. We will recommend voting against a director if his/her direct/indirect related party transactions exceed any of the following thresholds: (i) US$50,000 or no disclosure for personal direct transactions; (ii) US$100,000 for indirect transactions with an entity in which a director holds more than 50% interest; (iii) US$100,000 for indirect professional services transactions with a professional services firm in which a director works for; or (iv) 1% of a company's consolidated gross revenue for indirect transactions with an entity in which a director serves as an executive.

Poor Attendance — We disfavor directors who have a record of not fulfilling their responsibilities to attend meetings held by the board or its committees and typically recommend voting against any director who fails to attend a minimum of 75% of the board meetings or 75% of total applicable committee meetings and board meetings. In addition, where we find a nominee has failed to attend 75% of their applicable meetings in the past two consecutive fiscals, we recommend voting against the chair of the nomination committee. Likewise, where a nominee failed to attend any meetings in the past fiscal year, unless his/her attendance was inhibited by health-related matters, we recommend voting against the chair of the nomination committee.

Insufficient Board Meetings — We recommend voting against the chair of a board in case the board held less than four times of meetings during the last fiscal year. We believe that the board chair should be accountable for holding board meetings frequently enough to review all essential matters and make more efficient and well-informed decisions by the board members. While the appropriate number of board meetings necessary for a company may vary depending on the complexity of the company and other factors, we believe that four times a year should be the minimum.

Legal Disputes — In case a director is involved in legal disputes, we believe that shareholders should be concerned with any type of lawsuit or regulatory investigation involving the board or the company as such matters could potentially expand in scope and prove to dampen shareholder value. As such, in the event that members of management or the board are implicated in any such legal proceedings, we may recommend that shareholders vote against certain directors on that basis.

BOARD SIZE

While we do not believe there is a universally applicable optimum board size, we generally believe boards should have at least five directors to ensure sufficient diversity in decision-making and enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult for boards to properly draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

SEPARATION OF THE ROLES OF CEO AND BOARD CHAIR

The Corporate Governance Code stipulates that the roles of board chair and CEO should be separated to ensure that no one individual has unfettered powers of decision. Further, listed companies are required to disclose the identities of the board chair and CEO, as well as the nature of any relationships between them (e.g., business or familial).

Glass Lewis believes that separating the roles of corporate officer and board chair creates a better governance structure than a combined executive/board chair position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving the board's goals for the company. This process is needlessly complicated when a CEO sits on or chairs the board, as a CEO will presumably have a significant influence over the board.

It can become difficult for a board to fulfill its role of overseer and policy setter when a CEO/board chair controls the agenda and boardroom discussion. Such control can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of business operations and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out his/her vision for accomplishing the board's objectives. Failure to achieve the board's objectives should lead the directors to replace their top executive with someone in whom the board has confidence.

Similarly, an independent chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO or other executive would often face. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

Thus, where the board chair holds an executive position in the company, we believe that the board should instead appoint one or more independent vice chairs or a leading independent director to carry out the role of overseer and policy setter. Absent at least one independent vice chair or leading independent director, Glass Lewis will recommend shareholders vote against the chair of nomination committee.[11]

BOARD EVALUATION AND REFRESHMENT

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. This said, we recognize that in rare circumstances, a lack of refreshment can contribute to a lack of board responsiveness to poor company performance.

On occasion, age or term limits can be used as a means to remove a director for boards that are unwilling to police their membership and enforce turnover. Some shareholders support term limits as a way to force change in such circumstances.

While we understand that age limits can aid board succession planning, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. We

11 When the information regarding committee chair is not disclosed, we recommend voting against the committee member with the longest tenure on the board. If a board does not have a nomination committee (or a committee that serves such a purpose), we recommend voting against the chair of the board on this basis.

believe that shareholders are better off monitoring the board's overall composition, including its diversity of skill sets, the alignment of the board's areas of expertise with a company's strategy, the board's approach to corporate governance, and its stewardship of company performance, rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

RATIFICATION OF THE CO-OPTION OF BOARD MEMBERS

Board of directors is allowed to fill a vacancy through co-option by appointing an individual as a board member until the next annual meeting of shareholders. All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.[12]

DIRECTOR INSURANCE AND INDEMNIFICATION

A listed company may arrange appropriate insurance cover in respect of legal action against its directors.[13] However, such liability insurance should not cover liabilities that arise in connection with a director's violation of laws, regulations or the company's articles of association. Hong Kong law is silent on the indemnification of directors. In practice, the indemnification of directors, if approved or stipulated in the articles of association, is possible, and additional indemnities may also be agreed to in the engagement agreements between the company and relevant members of the board.

GENDER DIVERSITY ON BOARDS

Glass Lewis recognizes the importance of ensuring that the board is comprised of directors who have a diversity of skills, thought and experience, as such diversity benefits companies by providing a broad range of perspectives and insights. As with previous years, Glass Lewis will continue to closely review the composition of the board and may note as a concern instances where we believe the board lacks representation of diverse director candidates, including those boards which have no female directors.

In 2020, depending on certain factors, including the size of the company, the industry in which the company operates and the governance profile of the company, we will recommend voting against the nominating committee chair of a board that has no female members. Also, when making these voting recommendations, we will carefully review a company's disclosure of its diversity considerations and may refrain from recommending shareholders vote against directors of companies outside the Hang Seng index, or when boards have provided a sufficient rationale for not having any female board members.

BOARD COMMITTEES

AUDIT COMMITTEE PERFORMANCE

A listed company is required to establish an audit committee with a majority of independent directors in accordance with the Listing Rules.[14] Glass Lewis, however, believes that an audit committee should consist solely of independent non-executive directors given that an audit committee plays an integral role in overseeing and monitoring the management and auditors perform in regards to the accounting and financial reporting process.

In addition, when assessing an audit committee's performance, we are aware that an audit committee performs critical responsibility to provide adequate information and explanation to the auditor for it to be able to

12 Corporate Governance Code Article A.4.2.
13 Corporate Governance Code Article A.1.8.
14 Listing Rules, Rule 3.21.

conduct proper audit of the Company's accounts. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work also provide useful information by which to assess the audit committee.

For an audit committee to function effectively, it must include members with sufficient knowledge and to diligently carry out their responsibilities such as financial expertise. We are skeptical of audit committees where there are members that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO) or corporate controller or similar experience.

Thus, we would recommend voting against the following members under the following circumstances:

1. Any audit committee member who is not considered independent based on our research.

2. The audit committee chair if the audit committee does not have a financial expert or the committee's financial expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies.

3. The audit committee chair if the audit committee did not meet at least four times during the previous fiscal year.

4. The audit committee chair if the committee has less than three members.

5. All members of an audit committee who are up for election and who served on the committee at the time of the audit, if the company paid excessive fees[15] to its independent auditor for non-audit services.

6. The audit committee chair, when fees for non-audit services are greater than audit and audit-related fees paid to the auditor for one fiscal year.

7. All members of an audit committee in office, when fees for non-audit services are greater than audit and audit-related fees paid to the auditor for two or more consecutive fiscal years.

8. The audit committee chair if the company failed to disclose the non-audit fees[16] paid to the independent auditor.

9. All members of an audit committee who are up for election and who served on the committee at the time of the audit if the company and the board failed to provide adequate financial information to the independent auditor.

10. All members of an audit committee at a time when material accounting fraud occurred at the company or financial statements had to be restated due to serious material fraud.

11. All members of the audit committee when there is any disagreement with the auditor that results in the auditor resigning or being dismissed.

12. The board chair if the company has not established an audit committee.[17]

15 Where audit and audit-related fees total less than 50% of the total fees billed by the auditor.

16 We believe the company should disclose breakdown of audit and audit-related fees and non-audit fees paid to the independent auditor. Under the Corporate Governance Code C.3.3, the audit committee should ensure that an external auditor's provision of non-audit services does not impair its independence or objectivity.

17 Listing Rules, Rule 3.21.

13. The audit committee chair if any executive is invited to attend all audit committee meetings beyond the instances where the committee seeks clarification or answers on matters pertaining to the company's finances.

REMUNERATION COMMITTEE PERFORMANCE

Remuneration committees have the final say in determining the compensation of executives. This includes deciding the bases on which compensation is determined, as well as the amounts and types of compensation to be paid. This process begins with the hiring and initial establishment of employment agreements, including the terms for items such as pay, pensions and severance arrangements. In establishing remuneration arrangements, pay levels should be consistent with — and based on — the performance of the company's long-term shareholders returns.

Remuneration committee is also responsible for overseeing the transparency of compensation structures. This oversight includes the disclosure of compensation arrangements, the matrix used in assessing pay for performance and the use of remuneration consultants. It is important for investors to have a clear and complete disclosure of all the significant terms of compensation arrangements in order for them to judge the decisions of the remuneration committee.

Finally, remuneration committees are responsible for the oversight of internal controls in the executive compensation process. This includes controls over gathering information used to determine compensation, the establishment of equity award plans and the granting of equity awards. Lax controls can contribute to conflicting information being obtained, possibly through the use of nonobjective consultants, for example. Lax controls can also contribute to improper awards, such as backdated or spring-loaded options, or bonuses for years when the payment triggers were not met.

Thus, we would recommend voting against the following members under the following circumstances:

1. Any remuneration committee member who is considered insider of the company based on our research.

2. Any remuneration committee member who is not considered independent, if the committee is not majority independent.

3. All members of the remuneration committee (during the relevant time period) if: (i) the company entered into excessive employment agreements and/or severance agreements; (ii) performance goals were lowered when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained; or (iii) excessive employee perquisites and benefits were allowed.

4. The remuneration committee chair, if non-executive directors of the company received compensation other than base fees and equity-based compensation.

5. The remuneration committee chair, if the committee is chaired by a non-independent director.

6. The remuneration committee chair, if the committee has less than three members.

7. The board chair if the company has not established a remuneration committee.[18]

18 Listing Rules, Rule 3.25.

NOMINATION COMMITTEE PERFORMANCE

The nominating committee, as an agency for shareholders, is responsible and accountable for the selection of objective and competent board members.

With regard to the nomination committee, we will recommend voting against the following committee members under the following circumstances:

1. The nomination committee chair,[19] if: (i) the committee is chaired by a non-independent director; (ii) less than one-third of the board is independent; (iii) there are more than 20 members or less than 5 members on the board; (iv) the committee did not hold any meeting during the previous fiscal year; (v) the committee re-nominates a director who did not attended any board meetings in the previous fiscal year and does not provide a reason for such re-nomination despite of the poor attendance; (vi) the committee re-nominated a director who attended less than 75% of the meetings held by the board and/or the committees for two or more consecutive years; and (vii) where the board chairperson is a part of the management team and the board does not appoint an independent vice chairperson or a leading independent director.

2. Any nomination committee member who is not considered independent, if the committee is not majority independent.

3. The board chair if the company has not established a nomination committee.[20]

GOVERNANCE COMMITTEE PERFORMANCE

In performing this role, the board is responsible for overseeing management's and the board's governance practices. It is also responsible for providing leadership on governance policies adopted by the company. In the absence of a nominating committee, we will analyze the governance committee in the same manner as we would the nominating committee.

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis understands the importance of ensuring the sustainability of companies' operations and believes that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks for companies that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies, and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Where it is clear that companies have not properly managed or mitigated environmental or social risks to the detriment of shareholder value or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible with oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the relevant committee. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

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19 When the information regarding committee chair is not disclosed, we recommend voting against the committee member with the longest tenure on the board. If a board does not have a nomination committee (or a committee that serves such a purpose), we recommend voting against the chair of the board on this basis.

20 Corporate Governance Code Article A.5.1.

INITIAL PUBLIC OFFERING

Where a company recently completed its initial public offering ("IPO") and became listed on the stock exchange, we will exempt the company from our guidelines for a period of the first financial year or 12 months from the IPO date, whichever is longer.

The Link Between Compensation and Performance

REGULATORY FRAMEWORK

According to the Corporate Governance Code, all issuers should disclose details of any remuneration payable to each board member and any members of senior management by band in their annual reports[21]; and a significant proportion of executive directors' remuneration should link rewards to corporate and individual performance.[22]

The adoption and refreshment of equity-based compensation plan such as share option scheme[23] must be also approved by shareholders in general meeting. Under the Listing Rules, the total number of securities which may be issued upon exercise of all options to be granted under the scheme and any other schemes must not in aggregate exceed 10% of the relevant class of securities of the listed issuer. Further, the limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other schemes must not exceed 30% of the relevant class of securities of the listed issuer in issue from time to time.

DIRECTORS' FEES

Glass Lewis believes that non-employee directors should receive compensation for the time and effort they spend serving on a board and its committees. Director fees should be competitive in order to retain and attract qualified individuals, but excessive fees can represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. Therefore, a balance is required.

Generally, Hong Kong companies submit proposals to authorize the board to fix the fees of directors without disclosing the amount of the fees to be paid during the next fiscal year. In such cases, we look at a company's recent compensation practices in order to determine whether the board should be granted such authority. Glass Lewis generally supports this type of proposal except in cases where we find the proposed fees are excessive relative to those paid by peer companies with similar market capitalizations.

EQUITY-BASED COMPENSATION PLANS

Glass Lewis believes that stock options or shares should be granted as a form of compensation to people who directly contribute to the company's operations and/or performance, and that such awards should serve to encourage the grantees to protect and improve shareholder value. As such, we believe it is appropriate for executive directors and employees to be the sole recipients of these awards. While Listing Rules provide no restrictions for participation in share option scheme, we disfavor the granting of stock options to a broad range of participants, such as customers, suppliers, sub-contractors or agents of a firm or other persons determined by the directors as being important to the development and growth of the company. We believe the board may abuse its authority and serve its own interests by granting options to a customer of the company who has an affiliation with the board or management. Therefore, considering the wide range of participants and the possibilities of improper use of the stock option grants by the board, Glass Lewis may recommend shareholders vote against an equity-based compensation plan if it includes a wide range of participants.

21 Corporate Governance Code Article B.1.5.

22 Corporate Governance Code Article B.1.7.

23 Listing Rules, Chapter 17.

We also do not favor the granting of stock options to non-executive directors as we believe that a non-executive director should hold the same type of securities as ordinary shareholders. We do, however, understand and accept that granting of stock options to non-executive directors is a common practice in Hong Kong and support such grants so long as the terms, conditions and size of the grant are fair and reasonable.

In Hong Kong, discretionary awards are permitted under the equity-based compensation schemes as Listing Rules do not specify any restrictions for performance conditions. While a lack of performance targets for such plans is common in Hong Kong, we do urge the company to revise its equity-based incentive plan so as to better link the interests of shareholders with those of executives.

When evaluating equity-based compensation proposals, we will look for companies to provide complete disclosure surrounding the proposed equity grants. In the absence of complete disclosure, we may recommend shareholders oppose either the adoption of an equity-based compensation plan or the granting of equity grants where:

- The exercise price of stock options is determined at the discretion of the plan administrator.
- The totality of the vesting period is less than two years.
- The equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee.
- The number of share options or shares to be granted has not been disclosed by the company.

We will also raise our concern where the rules of the scheme includes a provision that provides for accelerated vesting of options, to the extent vested and not already exercised, if the company changes control. We believe that this provision may discourage potential buyers from making an offer for the company as it can result in purchase price increase and higher employee turnover.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS

In Hong Kong, as a routine matter, companies must submit their annual financial statements, director reports and auditor reports to shareholders. A company's consolidated financial statements combine the activities of the company, as well as the activities of its subsidiaries. The financial statements are approved by the board and reported on by the auditors. Approval of such a proposal does not discharge the board from liability.

We will generally recommend voting for these proposals, except if there are concerns about the integrity of the statements/reports or material weakness. In case these concerns are significant so that the independent auditors are not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, we will recommend shareholders vote against the proposal and hold the company's audit committee accountable based on disclaimer of auditor opinion. In addition, if we are unable to obtain all the necessary documents (e.g., annual financial statements, director reports and auditor reports), we will recommend shareholders abstain from voting on the proposal.

PROFIT DISTRIBUTION AND SHAREHOLDER RETURN PLAN

Glass Lewis generally supports a company's policy when it comes to the payment of dividends including decisions not to pay them. In most cases, we believe the board is in the best position to determine whether a company has sufficient resources to distribute a dividend or if shareholders would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

In 2012, China Securities Regulatory Commission (CSRC) issued the "Notice on Issues Concerning Further Implementing Cash Dividends Distribution of Listed Companies," which requires the listed companies to amend their articles of association to reflect certain provisions regarding profit distribution policy, specifically clearing the decision-making procedures and mechanisms on profit distribution. According to the notice, among others, the accumulated profit to be distributed in cash for any three consecutive years shall not be less than 30% of the average annual distributable profit realized in the most recent three years. We believe the most provisions under the notice will further improve the transparency and operability of decision-making on dividend distribution and strengthen the protection of legitimate rights and interests of the shareholders in terms of the company's shareholder return plan.

APPOINTMENT/RATIFICATION OF AUDITOR

The auditor's role as gatekeeper is crucial in ensuring the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and do a thorough analysis of a company's books to ensure that the information provided to shareholders is a complete, accurate, fair and reasonable representation of a company's financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health.

Shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards. Similar to directors, auditors should be free from conflicts of interest and avoid situations requiring them to choose between their interests and those of shareholders. Almost without exception, shareholders should be able to annually review an auditor's performance and ratify a board's auditor selection.

We generally support management's choice of auditor, except when we believe the auditor's independence or the integrity of the audit has been compromised. Where there has been a material restatement of annual financial statements or material weaknesses in internal controls, we usually recommend voting against the auditor. However, we will not hold a company's auditor responsible for what we believe to be the company's failure to comply with reporting obligations.

Our common reasons for not recommending in favor of the ratification of an auditor include: (i) when audit and audit-related fees total 50% or less of the total fees billed by the auditor; (ii) recent material restatement of annual financial statements, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing; (iii) when the company has aggressive accounting policies, as evidenced by restatements or other financial reporting problems; (iv) when the company has poor disclosure or a lack of transparency in its financial statements; (v) If the auditor maintains certain relationships or there are concerns that might suggest a conflict between the auditor's interests and those of shareholders; and (vi) if the company has not disclosed sufficient information regarding the appointment or ratification of the auditor (e.g., the name of the auditor).

ADOPTION OF CHINESE ACCOUNTING STANDARDS

For Hong Kong listed companies, the financial history of results and the balance sheet included in the accountants' report must normally be drawn up in conformity with:

1. Hong Kong Financial Reporting Standards (HKFRS); or
2. International Financial Reporting Standards (IFRS); or
3. Generally Accepted Accounting Principles in the United States of America (US GAAP); or
4. China Accounting Standards for Business Enterprises (CASBE).[24]

While we recognize that there have not been any regulatory concerns regarding the adoption of CASBE, we believe it is not in the best interest of shareholders. Given that many other countries have already adopted full IFRS as their accounting principles or are in the process of adopting IFRS as their requirements, we are not in favor of the adoption of CASBE by Hong Kong listed companies. We believe that financial statements prepared in accordance with the IFRS and Hong Kong accounting standards, which are recognized as an accounting standard almost identical to the IFRS, would provide investors with more comparable data regarding a company's financial information and resources.

Moreover, we recognize there is growing globalization of accounting standards of listed companies with their market expansion across borders. Even though there is no empirical evidence about a decline in audit quality based on the CASBE, taking into account the growing number of accounting problems at China-based companies which have triggered investigations by non-Chinese authorities, we do not feel that adoption of CASBE will provide reliable and sound financial reporting practice. Thus, we believe that IFRS or Hong Kong accounting standards would better protect shareholders' interest and would ensure the uniformity and comparability of financial information of Hong Kong listed companies.

24 Listing Rules, Rule 4.11.

Governance Structure and the Shareholder Franchise

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyze each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that all of the amendments are in the best interests of shareholders.

COMMUNIST PARTY COMMITTEE

While we consider amendment proposals on a case-by-case basis, we generally believe that companies should disclose as much relevant information relating to the interaction between the company and the Communist Party Committee as possible to help shareholders understand the company's decision making process.

We may consider recommending a vote against the article and/or bylaw amendments in cases where there is clear evidence of the board letting Party Committee make material decisions, as party committee's members are not elected by shareholders and thus are not accountable to shareholders.

Overall, decisions regarding management and policy (including those related to governmental interactions), are best left to management and the board as they, in almost all cases, have more information regarding the company's strategy and the associated risks.

GENERAL MANDATE

Pursuant to the Listing Rules,[25] a listed company may issue additional shares amounting up to 20% of issued share capital without preemptive rights, and it may issue repurchased shares of up to 10% of issued share capital for any purpose in one year, provided that a prior shareholders approval of these mandates has been obtained. Further, such issuances may be implemented with a maximum 20% discount to the market price, which would dilute the interests of existing shareholders.[26]

Under the aforementioned regulations, most of Hong Kong listed companies submit two separate issuance proposals at their annual general meetings: an authority to issue shares without preemptive rights (the "General Mandate"), and an authority to issue repurchased shares. We understand that these proposals allow companies to secure financial flexibility by increasing their levels of equity according to business development and investment needs. However, we are concerned that boards may abuse these authorities in order to serve its own interests by issuing shares to any party.

Our analyses of these types of proposals take into account the following elements to determine if a board may seek to abuse its authorities: (i) the potential for substantial dilution in the company's existing share ownership; (ii) the issue price has been set at a significant discount that is under the maximum legal limit of 20%; (iii) the decision-making process regarding the choice of share subscribers; (iv) the possibility for an improper

25 Listing Rules, Rule 13.36 (2) (b).
26 Listing Rules, Rule 13.36 (5) (b).

use of the authority; and (v) the past issuance practices of the company, which may include allocations of a substantial amount of shares to one significant shareholder or third party.

We believe granting a board such a high level of discretion over a company's capital structure may negatively affect shareholders' interests. We believe that these mandates for the equity issuances should be analyzed carefully, and that lower maximum limits will better serve shareholders' interests. Accordingly, we believe that the maximum limit of the General Mandate should be limited to 10% and discount rates should be capped at 15% of market price. Unless these conditions have been met, and the company has provided a detailed plan for such issuances, we will generally recommend voting against these types of authorizations.

AUTHORITY TO REPURCHASE ITS OWN SHARES

A company may want to repurchase or trade in its own shares for a variety of reasons. A repurchase plan is often used to increase a company's stock price, distribute excess cash to shareholders or provide shares for equity-based compensation plans for employees. In addition, a company might repurchase shares in order to offset a dilution of earnings caused by the exercise of stock options. We will recommend voting in favor of a proposal to repurchase and trade in company stock when the following conditions are met: (i) the board has set a maximum limit on the number of shares that may be purchased; (ii) there is a set maximum price that may be paid for each share (as a percentage of the market price)[27]; and (iii) the plan has an expiration date of 12 months. Further, the Listing Rules limit the number of shares that may be repurchased to no more than 10% of the company's capital.[28] In conjunction with a share repurchase program, companies often subsequently cancel the repurchased shares.[29]

ISSUANCE OF DEBT INSTRUMENTS

Glass Lewis generally maintains that policies relating to the Company's equity structure, absent a showing of egregious or illegal conduct that might threaten shareholder value, should be left to the judgment of the board. In our opinion, it is the responsibility of the Company's management to select the most appropriate combination of forms of finance and the proportion of each in the most cost-effective way.

For issuance of debt instruments proposals, we see few risks to the proposed debt offering based on our analysis of the company's financial position. We determine whether the company's debt levels are in line with or lower than those of its peers based on the peer group comparison to the company's long-term debt to assets and total debt to equity. We recommend voting for the proposal where the amount of leverage used by the Company is within our general reasonable issue limit.

ISSUANCE OF A SHARES

Hong Kong companies based in China may propose to list and trade Renminbi (RMB) denominated shares in Chinese markets ("A Shares"). Glass Lewis generally believes that boards are in the best position to determine the capital structure of a company within the context of its business. In addition, granting boards the authority to issue A Shares can benefit shareholders by providing companies with the flexibility to finance operations and future business opportunities. Furthermore, such issuances of A Shares could broaden a company's capital base and enable it to access Chinese capital markets.

RELATED PARTY TRANSACTIONS

In Hong Kong, many companies are family controlled. It is common to have a controlling shareholder or group of controlling shareholders in a listed company. For this reason, the regulation of connected transactions is of utmost importance in Hong Kong and all connected transactions between the excluded business and

27 Pursuant to the Listing Rules, Rule 10.06 (2), an issuer shall not purchase its shares on the Exchange if the purchase price is higher by 5% or more than the average closing market price for the 5 preceding trading days on which its shares were traded on the Exchange.

28 Listing Rules, Rule 10.06 (1).

29 Pursuant to the Listing Rules, Rule 10.06 (5), the listing of all shares which are purchased by a company shall be automatically cancelled upon purchase.

the applicant after listing must strictly comply with the requirements of chapter 14A. Chapter 14A of the Listing Rules requires that certain transactions entered into between "connected persons" of a listed company ("Connected Transactions") be disclosed to or approved by independent shareholders.[30] A connected person is a person who is a promoter, supervisor, director, CEO, former director (within the past 12 months) or shareholder controlling 10% or more of the voting rights of a company or any of its subsidiaries or affiliates, or a relative of such persons.

A number of companies listed on the Hong Kong Stock Exchange routinely seek shareholder approval of agreements to enter into new Connected Transactions or continue to enter into existing Connected Transactions in order to comply with Chapter 14A of the Listing Rules. Such agreements generally outline: (i) the pricing terms; (ii) annual limits; and (iii) the terms and conditions of sales and services to be provided among affiliate entities such as the parent company, subsidiaries and other entities that have material interests in the company. Such agreements are usually for a term of no more than three years.

Listed companies are required to employ an independent financial advisor to evaluate and provide an independent opinion of Connected Transactions. A report of the independent financial advisor must contain, among other items, a statement as to whether the transaction is on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the company and its shareholders as a whole.

Pursuant to the Listing Rules, shareholders with material interests in Connected Transactions are not permitted to vote on the proposal to approve such transactions and all transactions must be authorized by the board of directors and included within the special report of the company's independent auditors. Subsequently, this report is presented to shareholders at the annual meeting for the ratification of each transaction.

We will evaluate related party transactions on a case-by-case basis. We generally believe that the management of businesses and the decisions associated with business operations are best left to senior executives and the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. We believe that board members can be held accountable on these issues when they face re-election. It is our opinion that management and the board are in the best position to determine what operational decisions are the best in the context of the business. We therefore generally support proposals to approve a mandate to enter into related-party transactions.

However, with a limited exception noted below, we will recommend voting against a director if his/her direct/indirect related party transactions exceed any of the following thresholds: (i) US$50,000 or no disclosure for personal direct transactions; (ii) US$100,000 for indirect transactions with an entity in which a director holds more than 50% interest; (iii) US$100,000 for indirect professional services transactions with a professional services firm in which a director works for; or (iv) 1% of a company's consolidated gross revenue for indirect transactions with an entity in which a director serves as an executive.

In addition, we generally recommend shareholders vote against any deposit transaction of the Company and a financial arm of their non-controlling parent company (or within their groups). We believe such pooling of the group's cash through an unlisted financial vehicle may give the parent company control over the listed company's finances. In addition, such practices may lead to lax lending practices within the parent group, potentially exposing the shareholders of a listed company to undisclosed risks. Accordingly, we generally do not support such financial services transactions absent compelling economic rationale.

We note that in light of the nature of intra group transactions of a controlled entity, in which the parent entity controls more than 50% of the shares, we will refrain from recommending shareholders vote against such transactions.

30 Independent shareholder means shareholders who do not have material interests in the transactions being approved. Shareholders who have interests in such transactions are not allowed to vote on proposals to approve the transactions.

DUAL-CLASS SHARE STRUCTURES

Glass Lewis believes dual-class voting structures are typically not in the best interests of common shareholders and that allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board. Because we believe that companies should have share capital structures that protect the interests of non-controlling shareholders as well as any controlling entity, we typically recommend voting against proposals that we believe the proposed shareholding structure and voting rights attached thereto, will be detrimental to the interests of existing shareholders.

Routine Items

TRANSACTION OF OTHER BUSINESS

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before the annual meeting. In our opinion, granting unfettered discretion is unwise.

RATIFICATION OF BOARD ACT

In Hong Kong, as a routine matter, shareholders are usually asked to grant management with the authority to complete any and all formalities needed to carry out decisions made at the meeting, such as required filings and registrations. In general, we recommend voting for this type of proposal in order to help management complete the formalities necessary to validate the decisions made at the annual meeting.

RATIFICATION OF MANAGEMENT ACT

Glass Lewis believes that management of the business and the decisions associated with business operations, such as investment project and utilization of the proceeds; and change of company name or its business line, are best left to management or the board, absent a showing of egregious or illegal conduct that might threaten shareholder value. We believe that board members can be held accountable on these issues when they face reelection and that managements are in the best position to determine what operational decisions are the best in the context of the business.

Shareholder Initiatives

Although uncommon in Hong Kong, should a shareholder proposal arise, we will evaluate it on a case-by-case basis. We generally favor proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions such as those related to political, social or environmental issues to management and the board except when there is a clear and direct link between the proposal and an economic or financial risk for the company. We feel strongly that shareholders should not attempt to micromanage the business or its executives through the initiative process. Rather, shareholders should use their influence to push for governance structures that protect shareholders, including through director elections, and promote the composition of a board they can trust to make informed and careful decisions that are in the best interests of the business and its owners. We believe that shareholders should hold directors accountable for management and policy decisions through the election of directors.

ENVIRONMENTAL, SOCIAL & GOVERNANCE INITIATIVES

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*, available at www.glasslewis.com.

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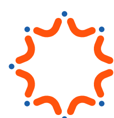

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