

Corporate governance and proxy voting
guidelines for Hong Kong securities

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Corporate governance and proxy voting guidelines for Hong Kong

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These guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles – 2014¹.

Executive summary

BlackRock has developed guidelines for the key markets in which it invests. The regional guidelines incorporate the legal framework of each region as well as the specific regional market practices. There may be slight inconsistencies due to differing market practices across regions.

Our policies for Hong Kong are based on the Companies Ordinance, the Listing Rules of the Hong Kong Stock Exchange (the Exchange), particularly its Chapter 13 Continuing Obligations, Chapter 14 Notifiable Transactions, Chapter 14A Connected Transactions, Appendix 14 Corporate Governance Code and Corporate Governance Report and Appendix 27 Environmental, Social, and Governance Reporting Guide, and the Codes on Takeovers and Mergers and Share Buy-backs by the Securities and Futures Commission. These all have in common the principles of accountability, transparency, fairness and responsibility.

Our approach to voting and corporate engagement is also informed by guidance on exercising ownership responsibilities issued by organizations such as the United Nations (the Principles of Responsible Investment) and the International Corporate Governance Network.

We are active members of each of these organizations and thus believe our principles are consistent with their guidance.

“Comply or explain” approach

Appendix 14 Corporate Governance Code and Corporate Governance Report of the Listing Rules (the Code) sets out the principles of good corporate governance, and two levels of recommendations: 1) code provisions; and 2) recommended best practices. The code provisions are implemented on a comply-or-explain basis. The Code allows companies to choose to not adopt the code provisions as long as a cogent explanation has been provided for the non-compliance with the particular practice. BlackRock expects companies that do not follow code provisions to provide explicit justification of any deviation by explaining how these serve the interests of the company's owners. Recommended best practices are only for guidance. BlackRock encourages companies to aim for higher standards than merely complying with what is required.

Engagement

BlackRock takes an integrated approach to corporate governance and engagement, to the extent possible, as we believe this approach results in both better informed decisions and a more consistent dialogue with companies. Activities are coordinated by the APAC BlackRock Investment Stewardship (BIS) team.

While we prefer to have meetings and discussions with non-executive directors, we recognize that it is not yet a common practice for the non-executive directors of Hong Kong companies to meet and speak with investors. Discussions are often held with investor relations officers, the company secretary and occasionally with the management team. Topics of discussion cover various aspects of corporate governance such as management of succession planning of the board, executive remuneration, board structure and performance, related party transactions, quality of company disclosure and any environmental and social issues which we believe have the potential to

¹ <http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers>

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unnecessarily increase the risk profile of the company. We will also participate in joint intervention with other shareholders where concerns have been identified by a number of investors.

Alternatively, we may consider reducing our holding in, or publicly opposing management of, a company which is unresponsive to shareholder concerns.

Proxy Voting Approach

BlackRock is one of the world's largest institutional investors, with extensive experience globally. BlackRock aims to vote at 100% of the annual and extraordinary shareholder meetings where we have the voting authority to do so.

These guidelines will be used to assist BlackRock in assessing proposals presented at shareholder meetings. When assessing any proposal put to shareholders BlackRock takes into account the unique circumstances of the relevant company and our assessment of the impact of such a proposal on the sustainable growth of the company. We aim to engage with management or members of the board, as appropriate, on contentious and high profile issues before determining how to vote.

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These guidelines are divided into nine key themes as follows:

- Board and directors;
- Remuneration and benefits;
- Accounts, auditors and audit-related issues;
- Allocation of profits/dividends Related-party transactions;
- Capital management;
- Mergers, asset sales and other special transactions;
- Environmental and social issues (E&S issues) ;
- General corporate governance matters.

Boards and directors

Composition of the board of directors

The board of a listed company should comprise competent individuals who have the requisite skills and experience to fully discharge their duties to shareholders. BlackRock expects the independent directors to possess between them the necessary breadth of experience and diversity of skills and to provide objective oversight in the decision-making process of the board without any conflicts of interest or undue influence from connected parties.

Board independence

BlackRock expects the board of a listed company to have at least a third of independent non-executive directors or three in number, whichever is higher, unless an acceptable explanation is provided. Where BlackRock assesses a board of directors to comprise less than a third of independent non-executive directors or three, BlackRock may consider voting against the re-election of all or some of the non-independent directors.

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Assessment of independence

An independent director is a director who is not a member of management (a non-executive director) and who:

- is not a holder of more than 5% of issued capital of the company or an officer or otherwise associated directly or indirectly with a holder of more than 5% of issued capital of the company;
- has not within the last three years been employed in an executive capacity by the company or another group member or been a director after ceasing to hold any such employment;
- has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the company or another group member;
- is not a material supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Disclosure of director information

BlackRock expects the following information to be disclosed in the annual report and company website, and the meeting circular when a director is seeking election/re-election:

- Directors' full name and age
- Date appointed to the board
- Brief biography detailing the directors' past roles and experience
- Details of any current dealings with the company
- The company's assessment of the director's independence

Particularly when a director is seeking election/re-election it is imperative the above information is provided to allow us to determine whether or not to support an election/re-election. Where this information is not forthcoming BlackRock may consider voting against the election/re-election of that director.

Appointment/Re-appointment procedure

The company should have a formal and transparent procedure for the appointment and re-appointment of directors. The board should disclose in the annual report the required mix and diversity of skills, experience and other qualities, including core industry competencies that each director brings to the board, the process by which candidates are identified and selected including whether professional search firms have been engaged to identify and/or assess candidates, the procedures used to ensure a diverse range of candidates is considered and factors taken into account in the selection process. The corporate governance statement in the annual report should also disclose the process adopted by the board to evaluate the performance of each director. BlackRock believes that annual performance reviews of the directors contribute to a more efficiently functioning board.

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Ethical conduct and decision making

BlackRock expects companies to have a code of conduct for directors, executives and other employees with such policy disclosed on the company's website. The disclosure should explain how the policy is communicated to all levels of employees to ensure its effectiveness.

Diversity

The Exchange introduced in its Code in 2013 a code provision requiring the nomination committee (or the board) to establish a diversity policy for the board. The company is required to disclose the policy or a summary of the policy in the corporate governance report.

Diversity recognizes differences relating to gender, age, ethnicity, disability, sexual orientation and cultural background. It also includes other dimensions such as lifestyle and family responsibilities. While the definition of diversity is broad, a key area that requires focus relates to gender equality in the work place.

BlackRock strongly encourages a company to establish a diversity policy that lays out its definition of diversity, why it creates value for the company, measurable objectives, the governance structure to ensure its effective implementation, and the internal procedure to review the effectiveness of the diversity policy.

Number of directorships an individual may hold

Non-executive directors must be able to commit an appropriate amount of time to board matters. Given the nature of the role it is important that a non-executive director has spare capacity in the event of a major development such as a hostile takeover. The demands on non-executive directors increase significantly in such situations and they must have the required time available to fulfill their duties to shareholders. In BlackRock's view it is the responsibility of the chairman to ensure that all the directors are able, and are participating actively and contributing to the workload of the board on a continuing basis.

BlackRock may vote against the re-election of a director where in our assessment, the workload of the non-executive director may impact his/her ability to discharge their duties as a director. In assessing the impact of workload, BlackRock takes into account both operational and geographical complexities of the other boards.

Non-executive directors who are full-time executives of other major listed companies

BlackRock has concerns when a full-time CEO accepts a non-executive role at an unrelated company. Full time CEOs are expected to work for their board and shareholders with full focus. As discussed above, non-executive directors need to have spare capacity when a major transaction occurs. BlackRock is concerned that where a full-time CEO has a non-executive director role there is a risk that their ability to fully serve in either role could be compromised. BlackRock may consider voting against a non-executive director who is also a full time CEO of a major listed company.

Length of service

BlackRock believes that shareholders are best served when there is orderly renewal of the board as this should result in directors with accumulated experience while at the same time introduce fresh minds and experience to the board. An effective renewal process will ensure non-executive directors do not serve for such lengths of time that may impair their independence.

The Exchange introduced a code provision in 2013 requiring shareholder approval for non-executive directors who have served for more than nine years. Further, companies are required to

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provide a rationale as to the particular directors' continued independence. BlackRock will consider voting against the re-election of directors who have been on the board for more than nine years if the board fails to provide justification and when there is no evidence of board renewal.

Meetings

Directors should ensure they attend all board and relevant committee meetings. BlackRock will consider voting against a director who attends fewer than 75% of board and relevant committee meetings for two consecutive years, unless compelling reasons for the absenteeism have been disclosed. However, BlackRock will disregard attendance in the first year following appointment as the director may have had commitments made prior to joining the board.

Conflicts of interest

BlackRock believes that all non-executive directors should be free from material conflicts of interest. Non-executive directors, their immediate family or related professional company, which has provided material professional services to a company at any time during the last three years, may be placed in a position where they may have to make decisions that may place their interests against those of the shareholders they represent. BlackRock may vote against the re-election of a director where an identified conflict of interest may pose a significant and unnecessary risk to shareholders.

All potential conflicts of interest should be declared prior to appointment and at each board meeting in relation to a specific agenda item.

Externally nominated board candidates

In general BlackRock supports the recommendations of the board regarding the election of directors. BlackRock does not ordinarily support individuals who have nominated themselves for the board unless they have the support of the board. In particular, BlackRock would not support an external candidate who has a restricted agenda as directors should act on behalf of all shareholders and deal with all issues that may arise. However, where we believe the addition of an external candidate to the board will add to the skill set of the board and is in the best interests of shareholders, we will support them.

Share ownership by non-executive directors

BlackRock believes listed companies should have a clear and disclosed policy on non-executive director share ownership. We believe that non-executive directors should have some "skin in the game" in order to align their interest with those of public shareholders. Such policies should require non-executive directors, within a reasonable amount of time after joining the board, to accumulate a meaningful investment.

Where a non-executive director continues serving on a board and fails to accumulate a meaningful investment and other significant corporate governance issues exist, BlackRock may vote against the individual.

Committees

Appropriately structured board committees provide an efficient mechanism which allows the board to focus on key issues such as audit, board renewal, remuneration, risk and any other issues deemed important. Board committees can also provide an important role dealing with conflicts of interests.

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BlackRock expects all companies to establish an audit committee, a remuneration committee, and a nomination committee. All committees should have written terms of reference which should, inter alia, clearly set out the committee's roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. All committee terms of reference should be available to investors on the company's website.

All committees should be given the power and resources to meet their obligations under the terms of reference. This will include the right of access to management and the ability to select service providers and advisors at a reasonable cost to the company.

The chairman of a committee should be independent. It is preferable for the chairman of the board not to chair board committees as this may lead to a concentration of power in a single director.

Audit committee

The audit committee should comprise only non-executive directors and a majority of independent directors, an independent chair and with at least one member having appropriate accounting or related financial background.

The terms of reference for the audit committee should have appropriate powers to determine the scope of the audit process, review the effectiveness of the external auditor, assess, review and authorise non-audit work, have access to the internal audit process and to make recommendations regarding the appointment and removal of the external auditor.

Where a risk committee has been established in addition to an audit committee, clear disclosure needs to be made on the responsibilities of each committee and how they interact.

BlackRock generally does not support the election of an executive director to be on the audit committee. Where the audit committee does not comprise a majority of independent directors and the chair is not independent, BlackRock will consider voting against the re-election of the chairman of the audit committee or the non-independent members of the audit committee particularly if there are other corporate governance issues. Further, where BlackRock has evidenced a failure of the audit committee relating to the preparation of financial statements, fraud and general accountability to shareholders, we will consider voting against the re-election of members of the audit committee.

A demonstrably independent audit is essential for investor confidence. Where non-audit fees exceed the level of audit fees in any year, BlackRock will review the nature of the non-audit fees and any explanation provided by the company for the significant level of non-audit fees. Full details of all non-audit work should be disclosed. If there is a lack of explanation of the non-audit services or we believe there is a risk that the type of non-audit services provided may impair the independence of the audit, we will consider voting against the re-election of the chair and/or members of the audit committee if he/she is seeking re-election.

Remuneration committee

The remuneration committee should comprise a majority of independent non-executive directors and have an independent chair. The responsibilities of the remuneration committee should include a review of and recommendations to the board on issues including but not limited to:

- The company's remuneration, recruitment, retention and termination policies for senior executives;

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- Executive director and senior executives fixed and performance based remuneration to ensure that executives are motivated to pursue the long-term growth and success of the company;
- The remuneration framework for non-executive directors.

Where BlackRock believes the remuneration committee has failed in its role, we will consider voting against the re-election of the chair/members of the committee.

Nomination committee

The nomination committee should comprise a majority of independent non-executive directors and have an independent chair. The responsibilities of the nomination committee should include a review of and recommendations to the board on issues including but not limited to:

- Assessing the competencies of all directors to ensure the board has an appropriate range of skills and expertise;
- Implementing a plan for identifying, assessing and enhancing director competencies;
- Reviewing, at least annually, the succession plans of the board;
- Ensuring the size and composition of the board is conducive to making appropriate decisions;
- Reviewing the time required by each non-executive director to undertake their role and whether non-executive directors are meeting that requirement;
- Ensuring a process for the evaluation of the performance of the board, its committees and directors and reporting the process to shareholders in the corporation governance report in the annual report;
- The appointment and re-election of directors;
- Maintaining a watching brief on the development of management and potential for senior executive succession planning from the level below senior executives.

BlackRock expects the board to have a formal and transparent process for the selection, appointment and re-appointment of directors to the board. Disclosure of this process helps support BlackRock's understanding of and confidence in the process. The process should be disclosed in the corporate governance report in the annual report and include the disclosure of the mix of skills and diversity the board is looking for. Circumstances where BlackRock may consider voting against the re-election of the chair and/or members of the nomination committee include but are not limited to:

- If the composition of the board continues to reflect poor succession planning, renewal or other composition deficiency;
- If the committee approved the nomination or re-election of an individual who has demonstrated a lack of integrity or inability to represent the interests of shareholders or who has an actual or perceived material conflict of interest that poses a risk to shareholders;
- If the committee fails to hold a meeting in the reporting year.

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Risk management

BlackRock believes that a sound framework of risk oversight, management and control is fundamental to the long term sustainable growth of shareholder value. The board is responsible for both establishing and overseeing the risk management framework of the company.

Risk management committee

BlackRock encourages companies to establish a standalone risk committee comprising a majority of independent directors and an independent chairman. Where a risk committee has not been established (or the functions of such a committee are not the responsibility of another committee e.g. audit) the company should disclose the process in place to ensure identification and management of risks facing the company.

The responsibilities of the risk management committee should include an annual review of any changes to the material risks faced by the company and ensure these are appropriately managed by the risk management framework.

BlackRock expects material environmental and social (E&S) risks to be included in the responsibility of the risk committee. Where this is not the case, companies should ensure annual disclosure of how the company manages such risks.

Separation of chairman and CEO position

BlackRock expects the chairman to be independent. Where the chairman is not considered to be independent, BlackRock expects a cogent explanation to be provided by the company and the independent directors to appoint one of their own as the lead independent director. We believe that the responsibilities of the lead independent director should include but are not limited to:

- Presiding at all meetings of the board at which the chairman is not present, including sessions of the independent directors;
- Calling meetings of the independent directors;
- Serving as principal liaison on board-wide issues between the independent directors and the chairman;
- Approving the quality, quantity, appropriateness and timeliness of information sent to the board as well as approving meeting agenda items;
- Facilitating the board's approval of the number and frequency of board meetings, as well as meeting schedules to assure that there is sufficient time for discussion of all agenda items;
- Retain outside advisors and consultants who report directly to the board of directors on board-wide issues;
- Ensuring he/she be available, if requested by shareholders, when appropriate, for consultation and direct communication;
- He/she should agree to and document the split roles between a non-independent chairman, the CEO and the lead independent director and have this published on the company's website so that shareholders can understand the break-out of responsibilities.

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Where a company does not have an independent chairman, a lead independent director has not been appointed and a cogent explanation has not been provided, BlackRock may consider voting against the re-election of the chairman particularly if other significant corporate governance issues exist.

BlackRock may, however, vote in favor of a non-independent chairman, for example where:

- The company is controlled and the chairman is associated with the majority shareholder; or
- The chairman is the founder or related to the founder of the company and in BlackRock's view is of crucial importance to the company and generally has substantial wealth invested in the company.

Remuneration and benefits

The key purpose of remuneration is to reward, attract and retain competent directors, executives and other staff who are fundamental to the long term sustainable growth of shareholder value, with reward for executives contingent on controllable outcomes that add value. Each company faces different issues at different times, has different value drivers and accordingly, BlackRock believes that each company should structure their remuneration policies and practices in a manner that suits the needs of that particular company.

The level of director and executive remuneration is generally not excessive at Hong Kong companies. Moreover, director and executive remuneration is disclosed on an individual basis with detailed breakdown of the remuneration components as required by the Companies Ordinance. However, not many companies disclose the rationale of the pay particularly performance-based pay. Where there is performance-based pay, BlackRock expects companies to disclose the key performance metrics selected and the rationale for their inclusion, e.g. why these metrics are suitable considering the company's development stage, business strategy, and the nature of the industry the company is in.

Non-executive director remuneration

The role of the non-executive director is to monitor the strategy, performance and remuneration of the executives and to protect the interests of shareholders in the long term. Non-executive directors should receive sufficient remuneration to attract and retain suitably qualified non-executive directors and encourage them to undertake their role diligently.

The executive arm and any major shareholder should not have any undue influence over the remuneration of non-executive directors.

Structure of non-executive director remuneration

Non-executive director remuneration should be structured in such a way that it aligns the interests of the directors with those of the shareholders they represent. The structure of non-executive director remuneration should not provide any disincentive to resign from the board should an issue of conflict or any other issue that would impair a director's independence arise.

Non-executive directors should receive a fixed annual fee, including additional fixed fees for board committee membership for their services. BlackRock supports non-executive directors entering into "salary sacrifice" arrangements whereby a portion of their fees is received by way of fully paid shares purchased on market. As noted previously, we believe that non-executive directors should

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have a meaningful shareholding in the company. Such arrangements assist in aligning the interests of non-executive directors with those of shareholders.

Equity-based incentive plan

Equity based incentive schemes for executives of Hong Kong companies are common. The most often used pay vehicle is stock options. The adoption and refreshment of a stock option requires shareholder approval in a general meeting. Under the Listing Rules, the size of an option scheme is capped at 10% of the issued capital. However, companies can refresh a stock option scheme upon shareholder approval although the aggregate number of options outstanding should not exceed 30% of the issued capital. The exercise price of the stock options must be no less than the market price at the time of the grant. The Listing Rules do not require the vesting of options to be conditioned on meeting certain performance conditions.

Option grants and performance based remuneration to non-executive directors

BlackRock does not generally support the granting of options to non-executive directors as such securities do not have the same risk profile as the ordinary shares held by ordinary shareholders and therefore may not align the interests of directors with those shareholders they represent.

Non-executive directors should not receive performance based remuneration as to do so would more closely align their interests with those of management, whose performance and remuneration they are intended to monitor on behalf of shareholders.

Where options or performance based remuneration has been granted to non-executive directors, BlackRock will consider voting against any such proposals and the re-election of the chair of the remuneration committee who must take responsibility for such poor remuneration structures.

Dilution

To ensure that equity based remuneration plans operate in a way that benefits both employees and shareholders, BlackRock expects to see a limit on the amount of dilution that can occur across all plans that a company may have. In the case of companies which have a mature business, BlackRock expects to see a total limit on dilution across all plans, including issued securities subject to plan rules, not exceeding 5% of total issued capital. Companies wanting a limit in excess of 5% should provide a cogent explanation.

For companies in a development phase which have a high cash burn rate, providing remuneration to employees, executives and non-executive directors in the form of equity is a means of preserving cash, a limit of up to 10% of issued capital is acceptable.

Accounts, statutory reports, auditors and audit-related issues

Accounts and statutory reports

BlackRock recognizes the critical importance of financial statements that provide a complete and accurate portrayal of a company's financial condition. Statutory reports such as Directors' Report and the Annual Report also serve to depict a complete picture of the company's business strategy, operational performance, risk management, and financial strength. Where there is an unqualified auditor's report for the financial statements and where the accounts and statutory reports are disclosed in a timely manner and with the requested information, we will support such proposals.

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Auditors and audit-related issues

The appointment of auditor and auditor remuneration needs to be reviewed and approved by shareholders on an annual basis. BlackRock expects the audit firms to be well qualified to undertake the task on behalf of shareholders. When a listed company proposes to appoint a different audit firm, BlackRock expects the company to provide a reasonable explanation for changing its audit firm, assuring shareholders that there are no disputes with company management connected with the auditor ceasing to hold office. Where there is no explanation provided, BlackRock may consider voting against the appointment of a new audit firm.

As explained in the section of Audit committees, BlackRock believes a demonstrably independent audit is essential for investor confidence. BlackRock expects companies to make detailed disclosure on auditor remuneration. Where non-audit fees exceed the level of audit fees in any year, BlackRock will review the nature of the non-audit fees and any explanation provided by the company for the significant level of non-audit fees. Full details of all non-audit work should be disclosed. If there is a lack of explanation of the non-audit services or we believe there is a risk that the type of non-audit services provided may impair the independence of the audit, we may consider voting against the (re)-appointment of the external auditor.

Allocation of profits/dividends

With the exception of companies incorporated in China, Hong Kong listed companies can declare a dividend by way of a board resolution, although some still submit a resolution to shareholders at a general meeting. These resolutions, when proposed, are generally not contentious and supportable. However, where dividend pay-out ratios appear, without explanation, to be too high or too low BlackRock may vote against such proposals.

Related party transactions

Related-party transactions (RPTs) are common at Hong Kong listed companies. These are transactions between the company and its related-parties, as defined in details in the Chapter 14A of Listing Rules. According to the materiality and nature of the transaction, it may need to be disclosed or submitted to a shareholder meeting for approval. Any shareholder who has a material interest in the transaction must abstain from voting on the resolution. If an RPT requires shareholders' approval, the issuer is required to establish an independent board committee comprised solely of independent non-executive directors and appoint an independent financial adviser to assist the independent board committee to prepare a recommendation to disinterested shareholders.

Broadly speaking, there are two types of related-party transactions: 1) one-off transactions, typically asset purchases or disposals; 2) recurring RPTs that are within the ordinary course of business, usually in the form of an ongoing goods and service purchase and provision agreement.

BlackRock assesses one-off RPTs on a case by case basis. Key factors we take into consideration include the strategic rationale and the fairness of the transaction terms. Moreover, BlackRock expects the company to disclose in detail the decision-making process the board has gone through and the process the independent directors have gone through to conclude their recommendation to minority shareholders.

Recurring goods and non-financial services purchase and provision RPTs are disclosed in the annual report in detail and are subject to approval by shareholders at least once every three years. In most cases, these transactions are within the normal course of business and are done on arms-

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length terms. Where disclosure is sufficient, BlackRock generally finds these proposals supportable.

Capital management

Rights issue

A rights issue does not require shareholder approval as long as the rights issue does not increase either the number of issued shares or the market capitalization of the issuer by more than 50% on its own or when aggregated with any other rights issues or open offers in the past 12 months. When this threshold is exceeded, a rights issue needs to be approved by shareholders in a general meeting and any controlling shareholders and their associates or, where there are no controlling shareholders, non-independent non-executive directors and the chief executive of the issuer shall abstain from voting in favor.

It usually takes a company one to one and a half months to complete a rights issue. Often new shares are issued at a significant discount.

Placements, share buybacks and reissuances of shares

The Listing Rules require shareholder approval for the following:

- To issue shares without pre-emptive rights. Companies can seek shareholder approval to issue up to 20% of equity and with a discount of up to 20% (known as the general mandate)
- To buy back up to 10% of shares on issue in a 12 month period (buyback mandate)
- To re-issue the shares that have been bought back (reissuance mandate)

The above mandates are often sought at the annual general meeting and shareholder approval is only for the next 12 months.

While BlackRock recognizes an issuer's need for the flexibility to raise funds and the capability to do so quickly at times, we consider the dilution risk implied by a general mandate of 20% in size and 20% in discount as potentially excessive. BlackRock will consider voting against a general mandate request for a 20% issuance at a 20% discount where a cogent explanation for the need to have such flexibility has not been provided in the explanatory memorandum. When seeking shareholder approval for a general mandate we expect disclosure of the following:

- An explanation for the need of a general mandate request and rationale for the proposed size and discount cap with reference to company's financial position and capital expenditure plans
- Details of any placements made under general mandates in the last five years
- Alternative financing methods considered by the board

When shareholders are asked to approve the general mandate as well as a buyback of shares a further request for a re-issuance of shares bought back does not seem necessary. BlackRock generally does not support a re-issuance mandates unless a cogent explanation is provided.

Mergers, asset sales and other special transactions

In reviewing merger and asset sale proposals, BlackRock's primary concern is the best long-term interests of shareholders. While these proposals vary widely in scope and substance, we closely examine certain salient features in our analyses. For mergers and asset sales, we assess the

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degree to which the proposed transaction represents a premium to the company's trading price. In order to filter out the effects of pre-merger news leaks on the parties' share prices, we consider a share price from multiple time periods prior to the date of the merger announcement. In most cases, business combinations should provide a premium. We may consider comparable transaction analyses provided by the parties' financial advisors and our own valuation assessments. For companies facing insolvency or bankruptcy, a premium may not apply. Where the transaction involves related parties we expect the board to establish a committee comprised of independent directors to review the transaction and report to shareholders. There should be a favourable business reason for the combination.

Unanimous board approval and arm's-length negotiations are preferred. We will consider whether the transaction involves a dissenting board or does not appear to be the result of an arm's-length bidding process. We may also consider whether executive and/or board members' financial interests in a given transaction appear likely to affect their ability to place shareholders' interests before their own.

Environmental and social issues (E&S issues)

BlackRock expects listed companies to disclose all material risks relating to E&S issues and how they are managed. The framework for disclosure should include but not be limited to:

- Identification of E&S risks specific to company
- Clear outline of board and management responsibilities on E&S issues
- Policies and processes to manage E&S risks as well as an explanation of how they are implemented and monitored
- Disclosure of key targets and indicators across the whole company
- Regular reporting on performance against policies and targets

Where BlackRock has concerns regarding the disclosure and management of E&S issues, we may consider voting against the election/re-election of directors, who are ultimately responsible for such issues.

General corporate governance matters

Amendments to articles of association

These proposals vary from routine changes to reflect regulatory change to significant changes that substantially alter the governance of the company. We will review these proposals on a case by case basis and support those proposals that we believe are in the best interests of shareholders

Anti-takeover devices

BlackRock believes that transactions or practices that are intended to impede a potential takeover can be limiting to shareholders. BlackRock will generally not support proposals that introduce or renew anti-takeover devices.

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Bundled proposals

We believe that shareholders should have the opportunity to review substantial issues individually without having to accept bundled proposals. Where several measures are grouped together, BlackRock may reject the overall proposal if it includes those that contradict or impede the rights and economic interests of shareholders.

Shareholder proposals

Whilst we recognize the importance of the right of shareholders to submit proposals to general meetings in jurisdictions where this is permitted, we will not support those that are frivolous or that cover any issues that we believe the board or management is or has addressed adequately. We will support shareholder proposals that we believe enhance shareholders' rights or are in the best economic interests of shareholders.

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