



## **From Conformance to Performance: Governance as a Driver for Long-term Listing Market Growth**

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This achievement reflects decades of effort. The Code on Corporate Governance, which began as a set of short, general, and voluntary guidelines for corporate directors in 1993, was renamed in 2004 and adopted the "comply or explain" approach. Over the past two decades, the code has evolved through comprehensive enhancements.

The CG Code enhancements in 2024 aim to improve board effectiveness, strengthen corporate decision-making abilities, and align with heightened global investor expectations regarding governance standards. These improvements aim to foster better financial and stock price performance for listed companies, equip them for new challenges and opportunities in 2025. Multiple stakeholders, including corporates, shareholders and intermediaries, will benefit from these enhancements.

### **Conformance driving performance    aligning with global developments**

To instill confidence in Hong Kong's listed companies, we must continue to strengthen our status as an IFC by ensuring a commensurate level of corporate governance.

Let us look to Japan as an example of how improved corporate governance enhances market performance. The Japanese stock market has performed strongly in recent years, primarily driven by earnings growth resulting from corporate governance reforms in early 2023. The Nikkei Index increased by 19% to a record high in 2024 and gained over 60% in the past five years.

A survey by the Asian Corporate Governance Association (ACGA) revealed that Japan's corporate governance ranking surged from fifth in 2020 to second in 2023, marking the most significant change in over two decades.

This shift occurred in the context of the government's CG Action Program launched in 2023, alongside efforts by the Tokyo Stock Exchange to enhance shareholder value and improve gender diversity. As a result, Japanese listed companies have demonstrated improvements in governance, leading investors to engage more actively and make shareholder proposals. Additionally, more companies are increasing shareholder returns through buybacks and dividends.

Globally, corporate governance initiatives are gaining momentum. Mainland China and South Korea have introduced measures to enhance listed companies' capital efficiency and encourage disclosures regarding corporate value and investor returns. Singapore implemented tenure limits for independent directors in 2023.

Beyond Asia, the UK has strengthened requirements for directors to report on board decisions and their outcomes concerning the company's strategy and internal control environment. These measures have increased the accountability of boards of directors.



