

EMPLOYEE SHARE PLAN TRENDS AND PRACTICES IN ASIA

2024 insights that can increase your position as a top-tier employer





Employee share plan offerings make a difference

As a global leader in the industry, Computershare has conducted research for decades creating awareness and recognising behaviors of employee share plans. Our most recent research provides data from both our existing clients in Asia, as well as 2,609 companies listed on the Hong Kong Stock Exchange (HKEX) across twelve industries.

Our research has enabled us to produce insights about share plan adoption, levels of equity compensation for senior management, share plan performance targets, common vesting schedules, share sourcing and more.

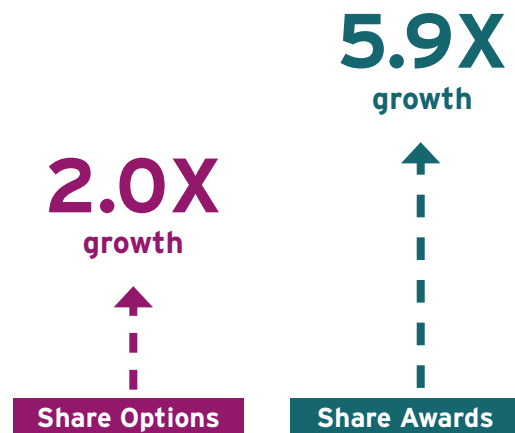
Focusing on the growing trends across companies in different industries and of different sizes, our research provides data on employee share plans helping you make informed business decisions, attract and retain top talent, increase productivity and performance, and improve employee engagement.

How does your employee share plan measure up in the market?



The growing popularity of share plans in Hong Kong

The steady growth in adoption of share plans among Hong Kong-listed companies over the past decade, shows the increasing popularity of equity in remuneration.



* Data reflects the growth of share plan adoption among Hong Kong-listed companies from 2012 to 2023.

Specifically, the adoption of share option plans has doubled while the adoption of share award plans has increased at a growth rate of nearly six times.



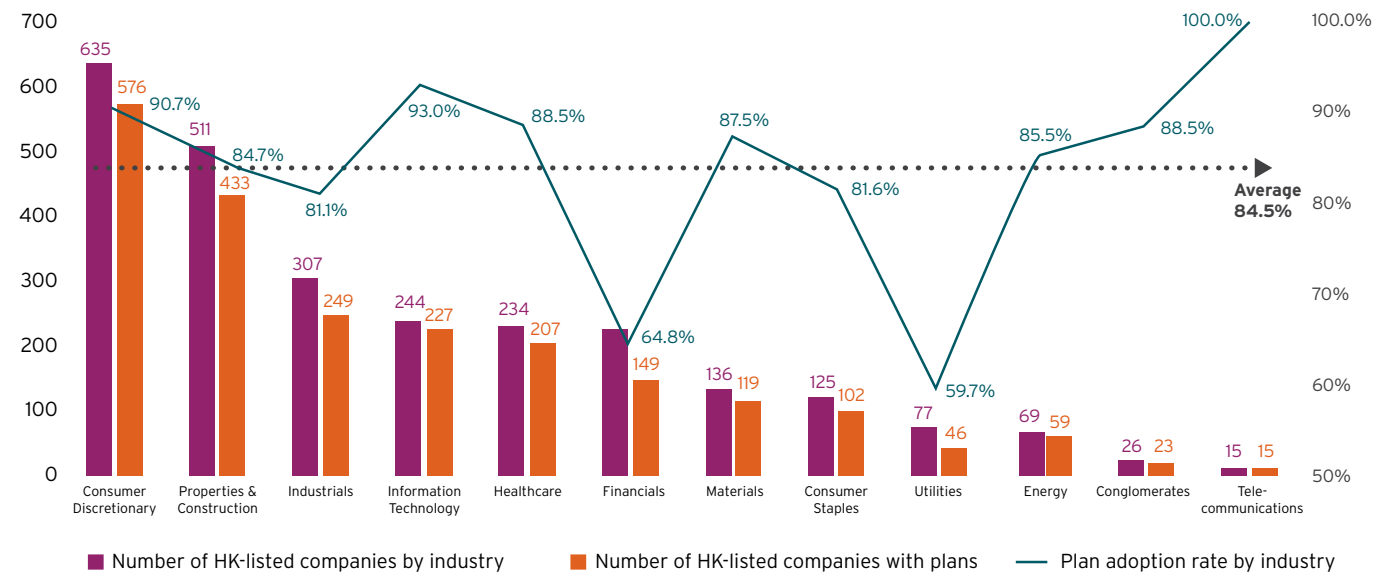
* Data source: 2,609 Hong Kong-listed companies as at 31 Dec 2023.

Share plan adoption rates based on industry

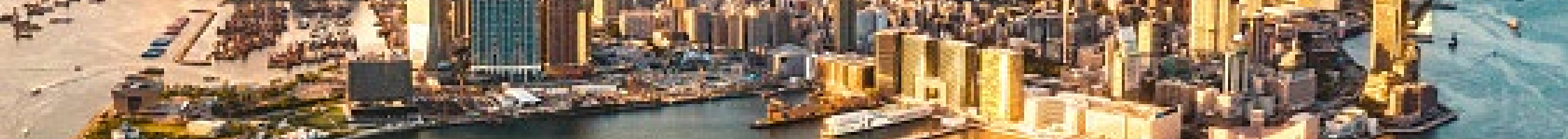
Taking our research one step further, we've concluded that of the Hong Kong-listed companies who offer share plans, these industries are the largest adopters:

- 100%**
Telecommunications
- 93%**
Information Technology
- 90.7%**
Consumer Discretionary
- 88.5%**
Healthcare and Conglomerates

Plan adoption rate of HK-listed companies by industries



* Data source: 2,609 Hong Kong-listed companies as at 31 Dec 2023. 2,205 Hong Kong-listed companies (84.5%) are with Employee Share Plans.



Hang Seng Index constituents and share award adoption

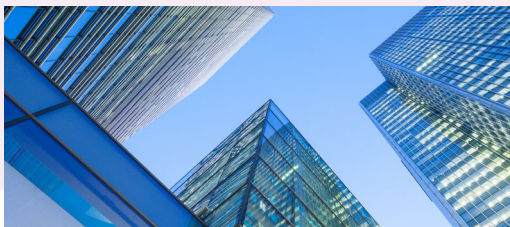
Larger, more established Hang Seng Index companies that offer share plans **typically prefer share awards.**

Hang Seng Index companies that have adopted share award plans

51%

The industries most likely to use share awards are:

1 Properties and Construction



2 Information Technology



3 Consumer Discretionary



Choosing the right share plan type: Options vs. Awards

While both share options and share awards can be effective tools for talent attraction and retention, selecting the right mix for your company is crucial.

Considering your business goals and objectives is a great start to determining the design of your employee share plan offering. But understanding what's trending in the market may give you the competitive advantage you need.

Among Hong Kong-listed companies, size matters. In fact, our research shows that share options and share awards are used very differently based on company size.

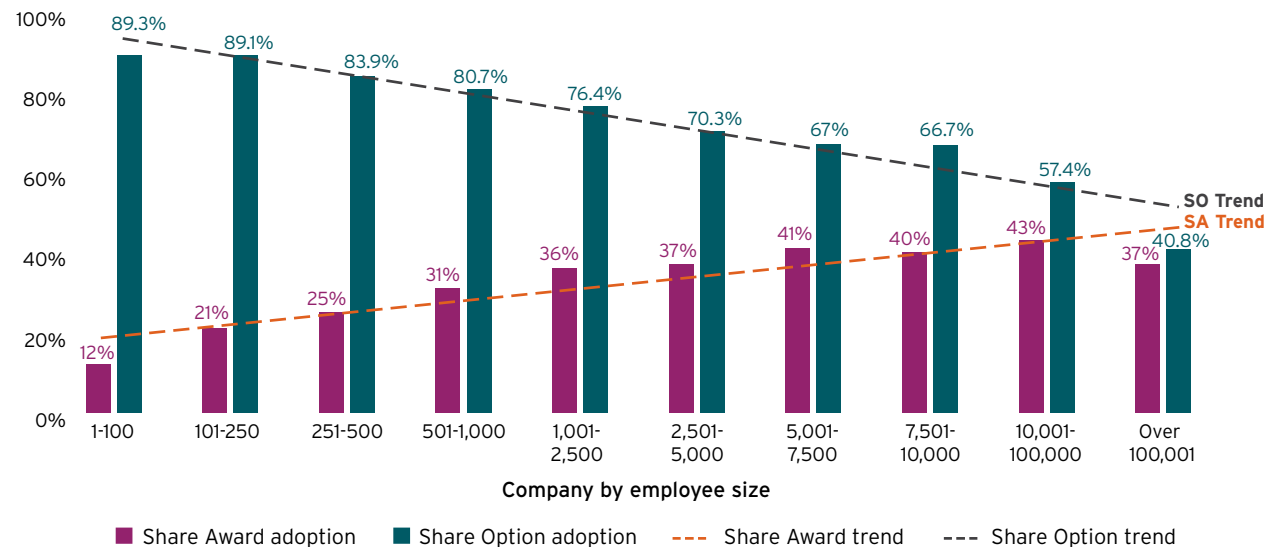
Share option plans tend to be more popular among smaller companies with less disposable cash who still desire to offer an attractive reward based on growth in stock value. Whereas share award plans are more popular among larger companies where awards will typically retain their value.

As shown in the graph, smaller size companies tend to lean towards share options while mid-size and larger sized companies maintain a higher percentage for share awards or even a mix of both.

Share options: Employees are given the choice to purchase shares in the future at a predetermined price on the grant date provided certain performance or tenure requirements are met.

Share awards: Employees are awarded shares, typically at no cost, subject to specific performance or tenure conditions.

Share Award and Share Option plan adoption rate by company size



* Data source: 2,609 Hong Kong-listed companies as at 31 Dec 2023. Companies with employee share plans refer to companies adopted share plans on or before 31 Dec 2023.



One vs. many. Using multiple share plans to improve engagement

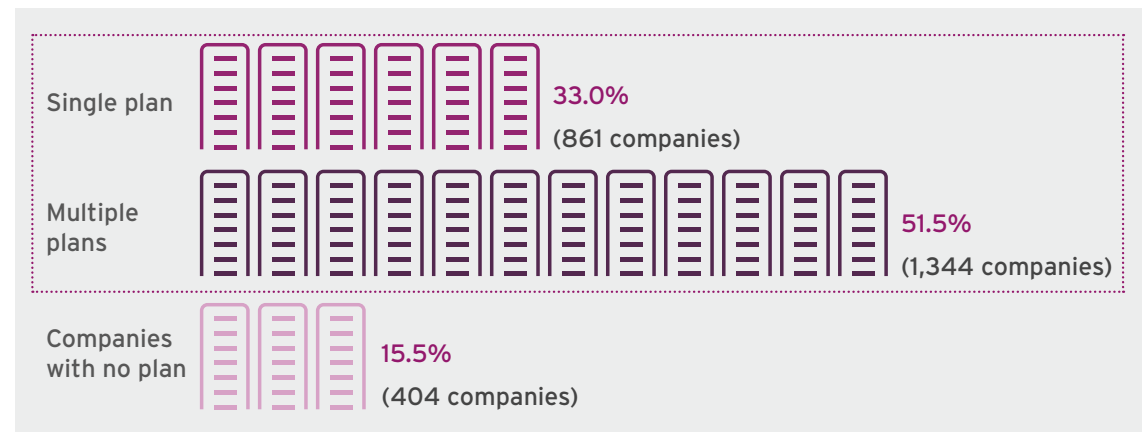
Recent research shows most companies who have adopted share plans have implemented multiple share plans to offer across their employee base.

This provides advantageous benefits in achieving company goals while increasing employee engagement at every level of the organisation.

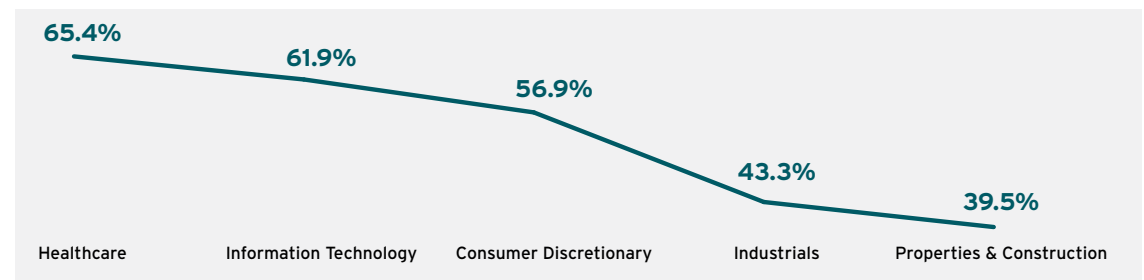
Companies of varying sizes and industries are increasingly diversifying their share plan offerings. This allows them to attract and retain top talent, increase employee engagement, and align employee incentives with specific business objectives.

According to our research, **65.4%** of Hong Kong-listed companies within the Healthcare industry offer multiple employee share plans, while Information Technology comes in at **61.9%**.

Share plan diversification by HK-listed companies



Top industries with multiple plans

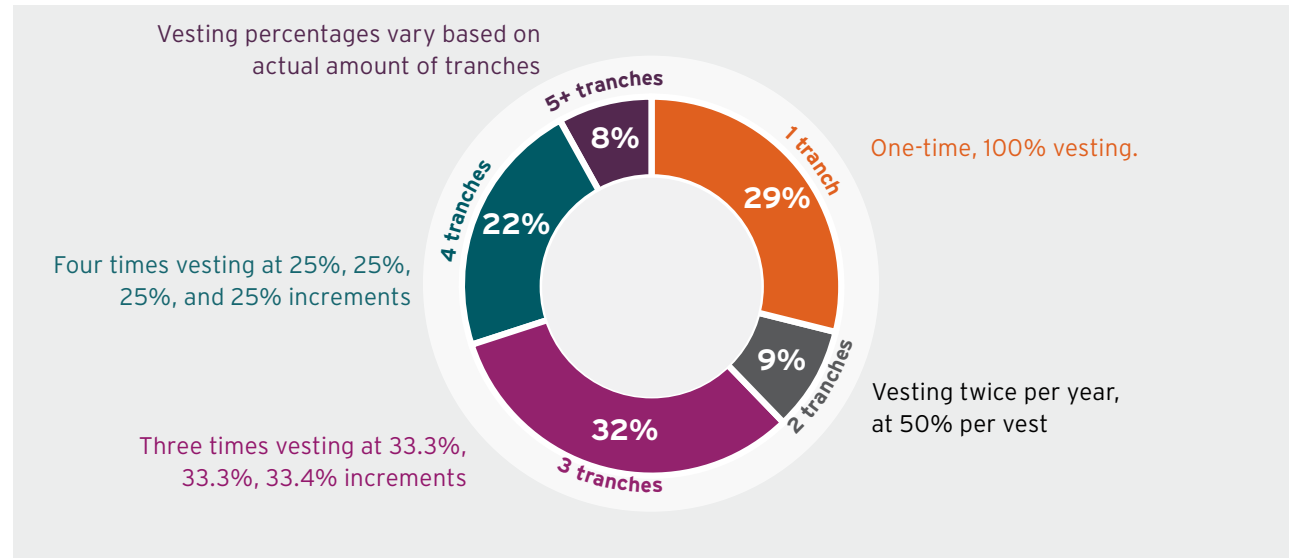


Finding your optimal vesting schedule

Vesting schedules of share awards are a significant part of your share plan design.

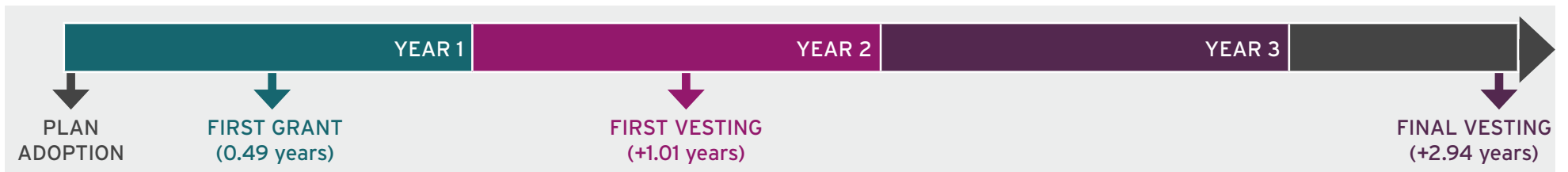
Employees are required to fulfill specific requirements before vesting occurs. But what is the most implemented vesting period and schedules for share awards?

According to our most recent research, share award vestings are typically awarded in accordance with the following tranches:



* Data source: 317 Share Award Plans of Hong Kong-listed Companies with Data Disclosed as of December 31, 2023.

From Grant to Vesting: A Typical Share Award Plan Cycle



The most common vesting schedule is over a three-year period. This can provide your company with more stable and tenured employees as your staff is more likely to stay with the company until vesting occurs.

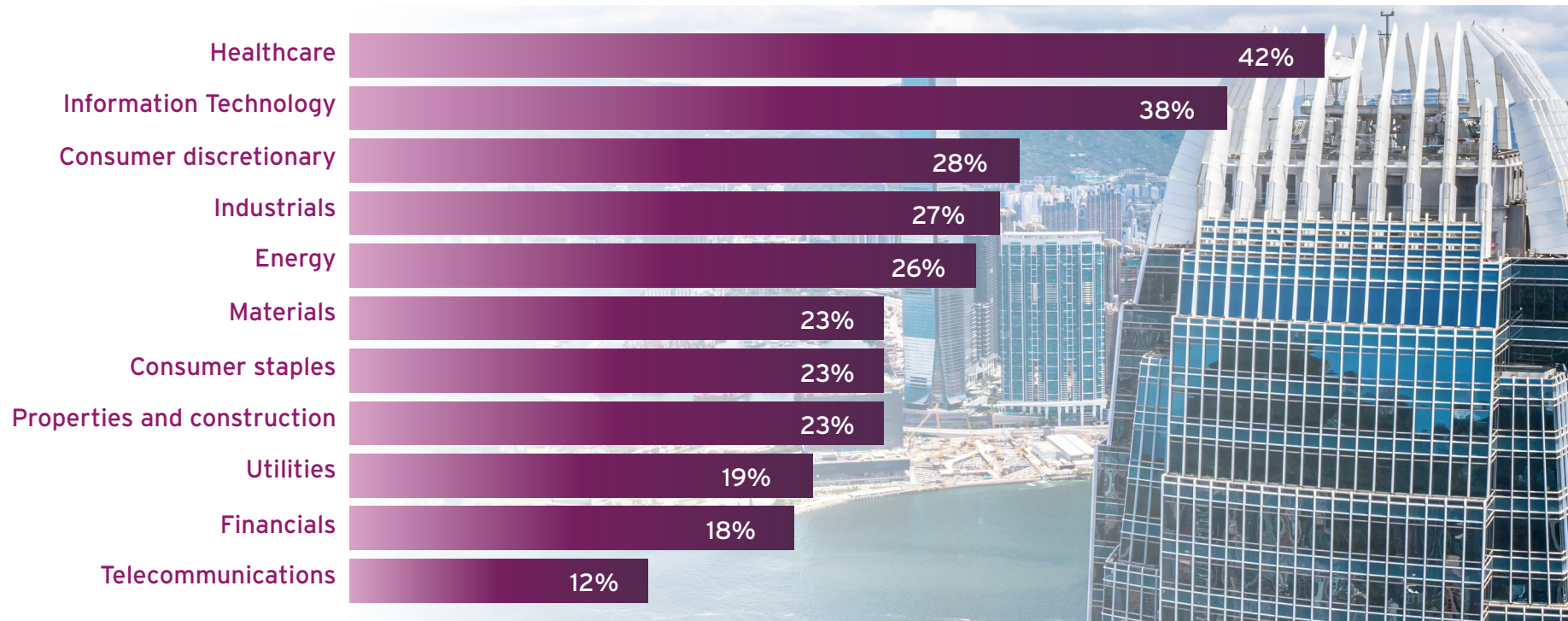
Our analysis of share award plans adopted from 2021 to 2023 reveals that, on average, companies make their first grant approximately six months after the plan adoption date.

Driving executive performance with equity compensation

Employee compensation packages that include equity can attract top executives to your organisation.

While all companies are in high demand for skilled talent, both the healthcare and information technology industries have proven to stand out when offering share-based compensation for key management personnel*. This level of investment not only drives executive performance but also keeps companies competitive in the market when recruiting and presenting total compensation packages to potential executives aligning with company goals and objectives.

Proportion of equity in executive remuneration (by industry)



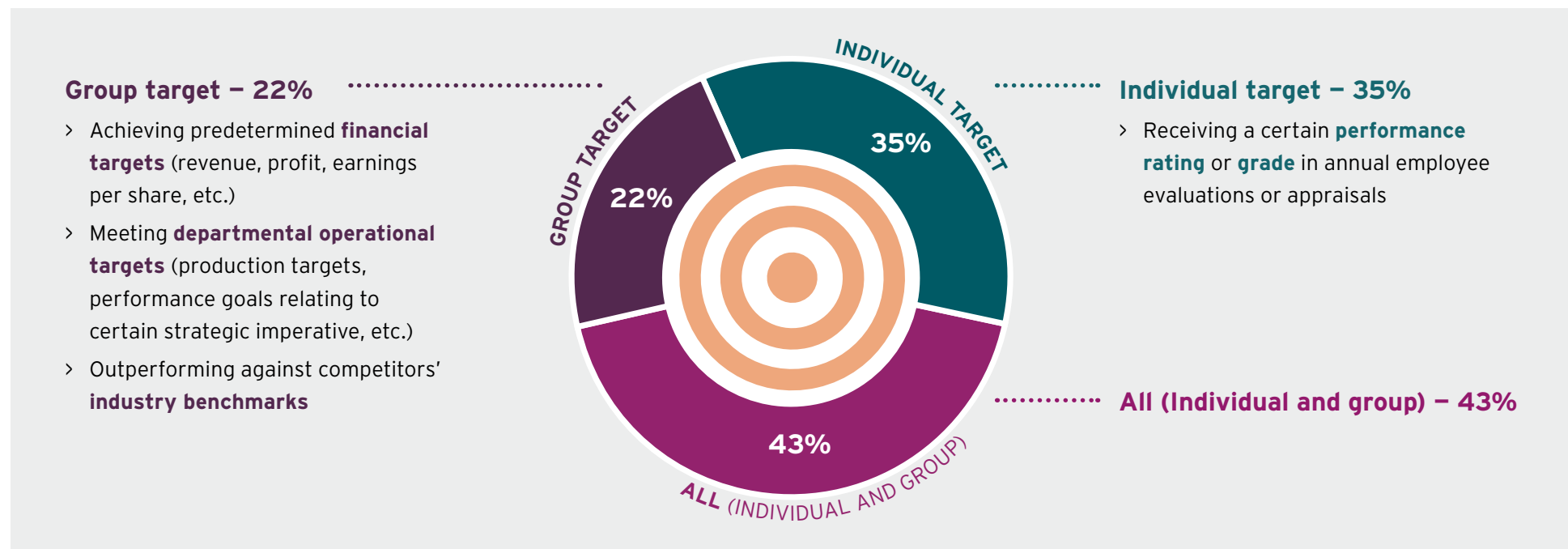
*Key management personnel data is based on 580 companies with disclosed data.



Setting performance targets for your employee share plan

Share options and share awards are typically contingent upon meeting certain goals and objectives set in advance.

In addition to time-based metrics, performance targets are defined and conveyed to each eligible participant. These performance targets are often measured against group/team goals, individual goals or a mix of both. When looking at the performance targets of Hong Kong-listed companies, below are the performance target measures they have in place as it relates to their employee share plans.



* Data Source: 625 HKEX-listed companies with 807 active Share Award Plans (as of 31 Dec 2023). Analysis based on 104 plans with disclosed data.



Accounting treatment considerations for performance targets

Under Hong Kong Financial Reporting Standards (HKFRS) and U.S. Generally Accepted Accounting Principles (GAAP), the cost of share-based payments is recognised based on the fair value of the equity instruments granted, with adjustments made for performance conditions tied to vesting. In both Hong Kong and U.S. accounting standards, different performance conditions necessitate distinct accounting approaches.

Companies are also required to estimate the likelihood of achieving performance targets, which will influence expense recognition.

Performance targets can be categorised into:

- > **Market performance conditions:** based on the price or value of the company's shares
- > **Non-market performance conditions:** depend on the entity's operational performance or individual contributions

These two types of conditions necessitate different accounting treatments regarding grant-date fair value and the cost of share-based compensation.

These variations highlight the importance of carefully assessing performance targets, as they can lead to different implications for expense recognition and overall financial reporting impact in both jurisdictions.

Companies should seek a reliable provider for financial reporting services to ensure compliance with the relevant standards and to facilitate transparent and accurate reporting tailored to their specific employee share plans.



The source matters: Where to get your shares

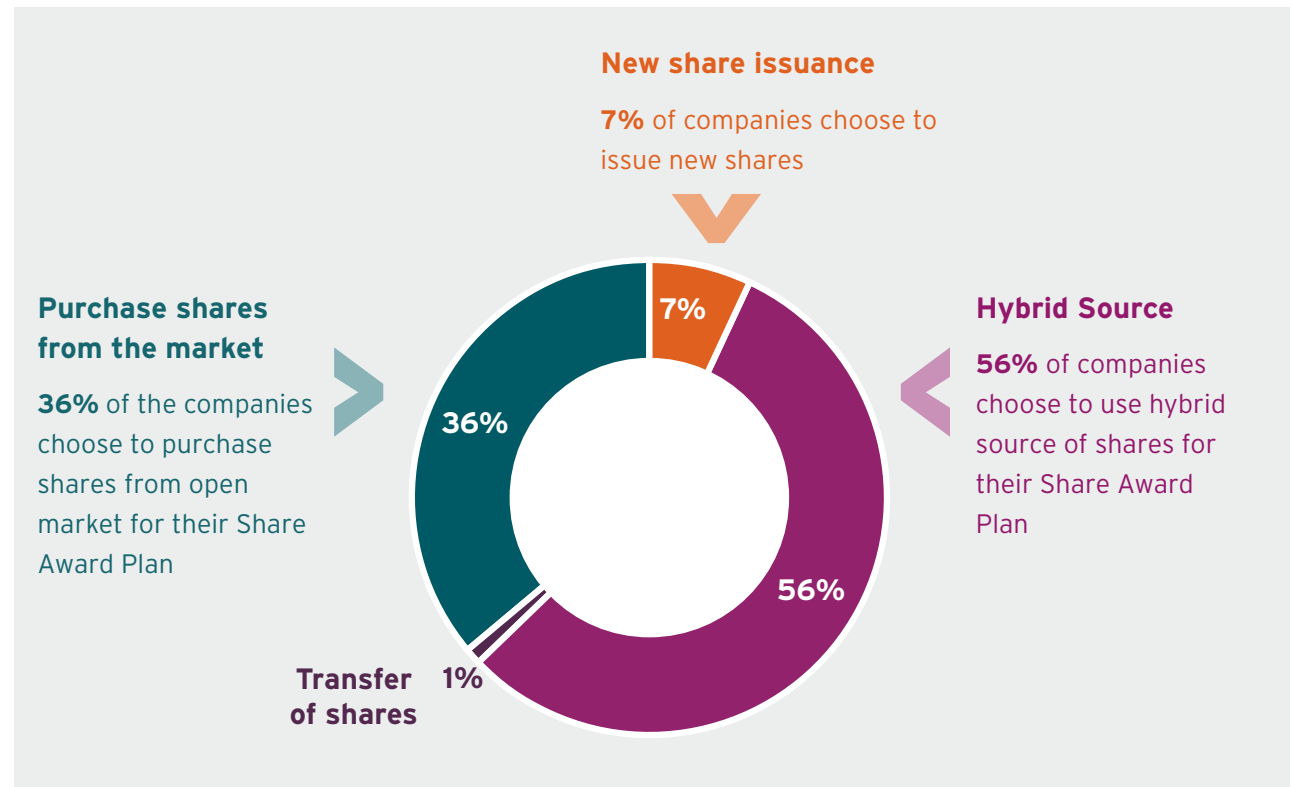
How you source shares needs to be considered when designing your plan. Aligning the source of shares with market practice can allow for a more impactful and flexible plan.

Shares can be acquired through new share issuance, transfer of existing shares, purchase from the open market, or a hybrid model that combines multiple sources.

Based on Computershare's trustee service clients across Asia, the following are the acquisition preferences:

Has HKEX Listing Rule Chapter 17 changed the way shares are sourced?

To protect shareholders from dilution, Chapter 17 amendments incentivise companies to purchase shares from the market. Shifting from multiple sources to purchasing shares from the market, companies are making changes aiming to further enhance the flexibility of their share award plans.



* Data Source: Computershare existing trustee clients



Why more pre-IPO companies are using equity compensation

From 2012 to 2023, the percentage of newly listed companies with pre-IPO employee share plans has increased by 33%.

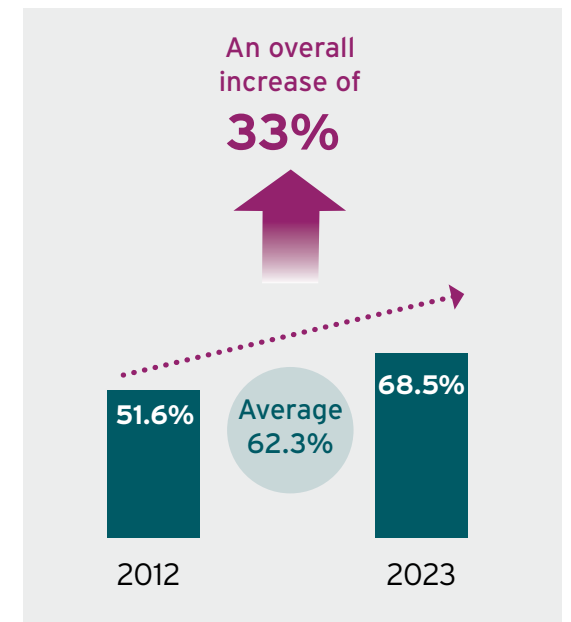
These companies are increasingly implementing employee share plans as a strategic tool to attract, retain, and motivate top talent.

By offering equity-based compensation, they can align the interests of employees with those of the company, fostering a shared sense of ownership and driving performance.

Additionally, offering equity compensation can be an effective way for pre-IPO companies with limited financial resources to conserve cash.

The average share plan adoption rate among pre-IPO companies has steadily increased from 51.6% since 2012 to 68.5% in 2023, indicating a growing market acceptance of pre-IPO share plans.

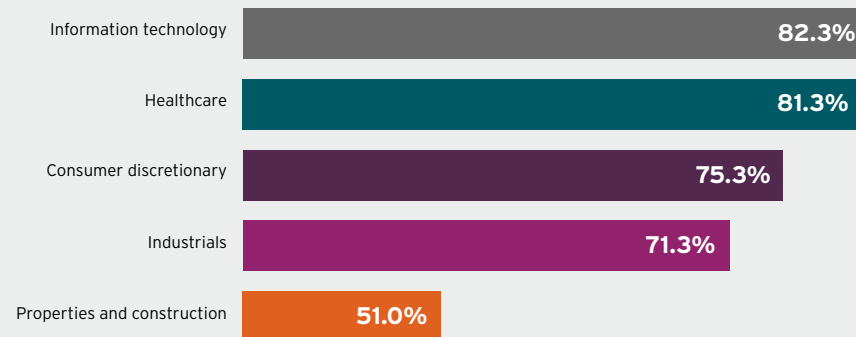
Pre-IPO Share Plans for HKEX Listings



Pre-IPO Share Plan Adoption by industry

By industry, our analysis shows information technology and healthcare are the leading industries implementing pre-IPO plan adoption. **Average adoption rates have exceeded 80%** over the last three years.

Average Pre-IPO Share Plan Adoption Rate Across Industries (2021-2023)

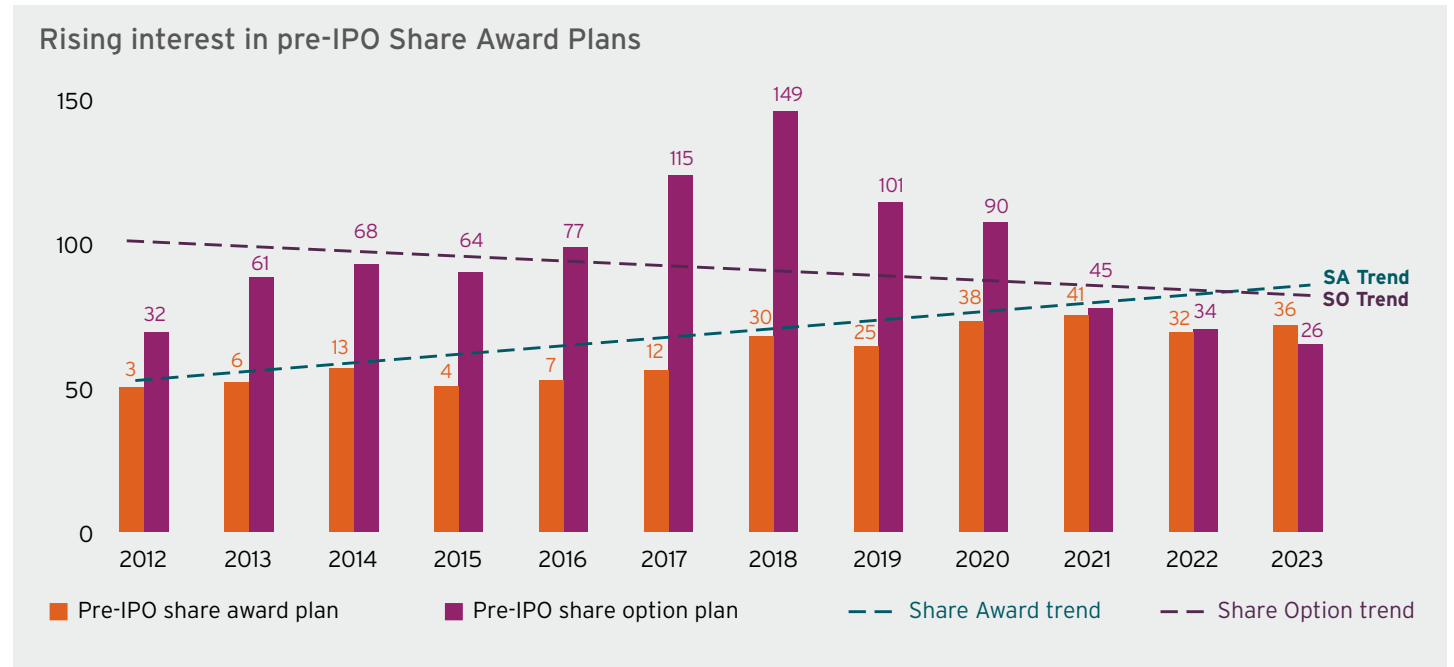


* Data source: 2,609 Hong Kong-listed companies as at 31 Dec 2023. % shown in chart refers to the number of companies with share plans among the companies within the same industry

Rising interest in pre-IPO Share Award Plans

Hong Kong-listed companies are showing a rising interest in implementing share award plans during their pre-IPO stage.

When looking at data from the past decade, share award plans have trended upwards and in 2023 has surpassed the number of share option plans.



* Data source: 2,609 Hong Kong-listed companies as of 31 Dec 2023. Companies with employee share plans refer to those that adopted share plans on or before 31 Dec 2023.

Beyond your executives: Broadening share plan participation with an ESPP

Companies are increasingly turning to employee share purchase plans (ESPPs) as a way of rewarding and motivating their workforce.

Benefits of an ESPP?

Offering a wealth of benefits to both the company and its employees, an ESPP can be extended to employees at all levels and in every location worldwide, making it one of the few benefits with such universal accessibility. For most companies, building an employee-centric, high-performing culture is crucial to achieving its strategic goals. Implementing an ESPP can significantly contribute to your company's success.

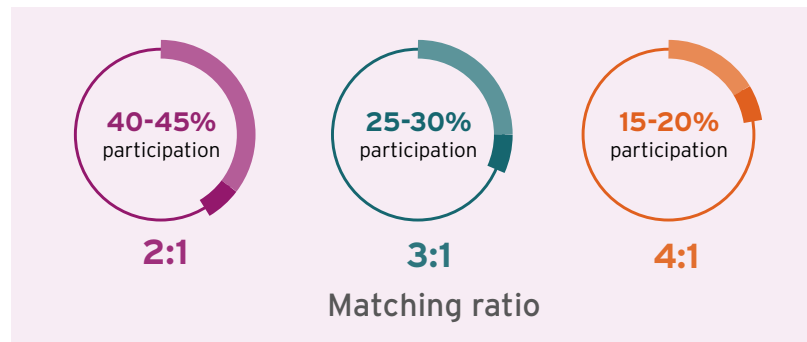
What is an ESPP?

An employee share purchase plan, or ESPP, is a broad-based share plan allowing employees to acquire company shares through after-tax payroll deduction purchases. Companies often provide discounted shares and matching benefits as additional incentive to increase employee participation and engagement.

Participation through regular contribution allows employees to build personal wealth through company equity. ESPPs encourage regular savings and foster greater loyalty and alignment with company goals and strategic objectives. In essence, employees who are also owners tend to work harder for the company's success, which in turn benefits their own financial well-being.

Matching shares to increase participation

As you structure your ESPP, it is important to consider how matching ratios may potentially affect employee participation. Based on our experience of managing several companies in Asia, we have observed that providing matching shares increases participation based on certain matching ratios.



ESPP matching ratios such as a 2:1, 3:1, or 4:1 ratio signifies that for every dollar your employee contributes to their ESPP, the company then matches a defined percentage.

About Computershare

As a leader in employee share plans in Asia, providing equity plan services to over 200 clients and 500,000 participants, Computershare has the expertise to deliver valuable insights to the market.

Our knowledgeable, local staff are experienced in all aspects of share plan management across Asia, including mainland China, delivering employee share plans to hundreds of companies. We have solutions for our clients' share plan management needs, no matter how complex.

We are committed to providing value to our clients beyond the day-to-day services we offer. We support our clients in successfully implementing and delivering effective employee share plans as part of their journey to reward their employees and build a high-performing culture.

Ready to optimise your employee share plan?

Discover the Computershare difference today and unlock a wealth of knowledge and market best practices. Use our insights and expertise to attract, retain and engage top talent.

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