

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201209q.doc>.

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree that the Exchange should promote board diversity?

Yes

No

Please give reasons for your views.

We support the Exchange to promote board diversity firstly because research indicates that diversity in the boardroom promotes more effective board decision-making, as well as better governance and monitoring. Secondly, for those companies serving multiple market niches should benefit from a diverse board representing the niches they serve. Thirdly, considering countries such as United State, United Kingdom, Australia, Singapore and Malaysia who have already made similar changes to their corporate governance codes, we support the need to address board diversity in Hong Kong.

2. If your answer to Q.1 is “yes”, do you agree that our Corporate Governance Code and Corporate Governance Report is the appropriate place for the new measures on board diversity?

Yes

No

Please give reasons for your views.

Taking reference of similar revisions in other countries, (i.e. the revision of UK Corporate Governance Code, the Australia’s Corporate Governance Principles and Recommendations, and the revised Code on Corporate Governance of Singapore) we agree that the Corporate Governance Code and Corporate Governance Report is the appropriate place to accommodate any new measures on board diversity.

3. Do you agree with our proposal to introduce CP A.5.6 (*the nomination committee or the board should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report*)? Please give reasons for your views.

Yes

No

Please give reasons for your views.

We agree that:

(i) the issuer should develop a policy concerning the diversity of board members, with the objective of addressing what steps are taken to broaden the diverse pool of eligible applicants during the appointment of board members, and how the board assures itself that there is sufficient diversity of thinking to ensure that decisions are properly considered and as far as practicable are free from bias; and

(ii) the issuer should disclose such policy or a summary of the policy in the corporate governance report, so as to increase the transparency of the nomination process and mechanism of the board.

4. Do you agree (i) with our proposal to introduce a note under CP A.5.6 to clarify what we mean by diversity; and (ii) with the content of the note? Please give reasons for your views.

(i)

Yes

No

(ii)

Yes

No

Please give reasons for your views.

(i) We agree that a note should be introduced under CP A.5.6, so as to emphasize that each issuer should achieve the diversity of board members through consideration of different factors, according to its own business model and specific needs. Since there is no one-size-fits-all diversity model, setting prescriptive guidelines, such as a quota system, would be a train wreck. Therefore diversity should be defined broadly and prescriptive criteria for considering diversity should be avoided.

(ii) The content of the note can be further enhanced by adding in the “length of service” as one of the key parameters that the issuer may consider for the board diversity. According to the report of research project on **Diversity on the Boards of Hong Kong Main Board Listed Companies** conducted by Hong Kong Institute of Chartered Secretaries (“HKICS”):

“Length of service can be regarded as one parameter of diversity in that a board probably benefits from a mix of experienced directors, with knowledge and insight of the issuer’s business built up over a number of years, and of newer directors who can bring fresh ideas and new perspectives.”¹

Yet, the research results across the boards of all Hang Seng Index companies showed that more than half of directors have 5 years or less of service on their boards, while the weighting of directors who have 1-5 years’ service on their boards was over 41% of all directors in 2011.

As such, the content of note can be enhanced as follows:

*“Board diversity will differ according to the circumstances of each issuer. Diversity of board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, **length of services** or professional experience. Each issuer should take into account its own business model and specific needs, and disclose the rationale for the factors it uses for this purpose.”*

¹ *Diversity on the Boards of Hong Kong Main Board Listed Companies, HKICS, 2012.*

5. Do you agree with our proposal to introduce a new mandatory disclosure provision in the Code stating that if the issuer has a policy concerning diversity, it should disclose details of the board’s policy or a summary of the policy on board diversity, including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives? Please give reasons for your views.

Yes

No

Please give reasons for your views.

We agree that a new mandatory disclosure provision should be introduced in the Code, requiring the issuer disclosing (i) measurable objective that the company has set for implementing its board diversity policy; and (ii) the board's progress on achieving the objectives. Such reporting will facilitate greater transparency and accountability. The issuer's board should report on what steps they are taking to achieve the diversity necessary to maximize the effectiveness of the board. While on the other hand, the issuer should provide clear and meaningful explanations when they choose not to apply such provision of the Code, so that their shareholders can understand the reasons for doing so and judge whether they are content with the approach the company has taken.

6. Which of the following would you prefer as the implementation date of the amendments set out in this paper?

- 1 January 2013
- 1 April 2013
- 1 June 2013
- 1 September 2013
- Other, please specify and give reasons.

After implementation of setting the policy, disclosing it and reporting the progress on achieving it is only the beginning. The next question is whether the board is more effective as a result of diversity. We suggest that to achieve diversity, the board must learn to work with colleagues who are with different backgrounds or views. This may require a concerted effort to orient new directors to the company and board, as well as facilitate differing perspectives to constructive solutions, eventually leading to a more diversified board in way that makes it constructive.

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