

Question 1

Do you agree with our proposal to introduce a code provision ("CP") requiring an issuer's board to set culture in alignment with issuer's purpose, value and strategy?

Yes

Please give reasons for your views.

Yes. We recognize the importance of healthy corporate culture and its alignment with the issuer's purpose, value and strategy in order to create and protect long-term value. Culture needs to be steered at the top and the proposed CP helps to make it clear that the board is accountable for setting the right tone.

Question 2a

Do you agree with our proposal to introduce a CP requiring establishment of an anti-corruption policy?

Yes

Please give reasons for your views.

Replying to both 2(a) & 2(b):

Yes. Both are reasonable requirements given anti-corruption and whistleblowing policies are core to establishing a healthy corporate culture. These policies and their implementation procedures including the governance structure of these policies should be disclosed on issuer websites to provide transparency. To ensure these policies are implemented effectively, issuers should also report regularly on the implementation status of these policies and the issuers' assessment of their effectiveness. The disclosure can be made in the annual ESG report and could include the number and hours of trainings provided to staff on the policies and procedures, number of corruption incidents and whistle-blows and the corresponding corrective actions, measures taken to protect the whistle-blowers, and any changes made to the policies and procedures and why.

Question 2b

Do you agree with our proposal to upgrade a Recommended Best Practice ("RBP") to CP requiring establishment of a whistleblowing policy?

Yes

Please give reasons for your views.

Replying to both 2(a) & 2(b):

Yes. Both are reasonable requirements given anti-corruption and whistleblowing policies are core to establishing a healthy corporate culture. These policies and their implementation procedures including the governance structure of these policies should be disclosed on issuer websites to provide transparency. To ensure these policies are implemented effectively, issuers should also report regularly on the implementation status of these policies and the issuers' assessment of their effectiveness. The disclosure can be made in the annual ESG report and could include the number and hours of trainings provided to staff on the policies and procedures, number of corruption incidents and whistle-blows and the corresponding corrective actions, measures taken to protect the whistle-blowers, and any changes made to the policies and procedures and why.

Question 3

Do you agree with our proposal to introduce a CP requiring disclosure of a policy to ensure independent views and input are available to the board, and an annual review of the implementation and effectiveness of such policy?

Yes

Please give reasons for your views.

We agree with the Exchange that ensuring a strong independent element on the board is key to an effective board. However, we question the usefulness of the CP in achieving that objective as it leaves ample room for issuers to comply with the CP using a perfunctory statement. This is precisely the case with the current CP A.4.3 which requires issuers to disclose why the board believes a Long Serving INED is still independent and should be re-elected. The Exchange has clearly recognized the issue and is trying to address it with the proposal to revise this CP to require such re-election be subject to independent shareholders' approval and to introduce a new CP to require issuers to appoint a new INED at the forthcoming annual general meeting (AGM) in circumstances where all the INEDs on the board are Long Serving INEDs.

Similarly, we believe a much more effective CP to achieve stronger board independence is simply to increase the required board independence level from one third to at least 50%, making independent directors the majority of the board. This has the potential to fundamentally change the dynamic of the board, giving rise to an environment conducive to open and honest conversations among directors. Another requirement we wish the Exchange could consider is independent board chair, or in the absence of which, the appointment of a lead INED. The former clearly sets out the independent leadership of the board while the latter, as a weaker alternative, creates a leadership structure among INEDs which shall lead to more effective INEDs as a whole.

Hong Kong has come a long way in its journey of enhancing board independence - from the 2003 requirement to have at least three independent directors in number to the requirement of one-third board independence introduced in 2012. We strongly believe the market is more than ready for the

natural next step: majority board independence. This would further set Hong Kong apart as a leading financial center in Asia and reinforce investor confidence in the market with the enhanced governance safeguards. If the Exchange is of the view that the market is not ready, we hope the Exchange could expound on this view and lay out the conditions it considers necessary for Hong Kong to take this step.

Question 4a

Do you agree with our proposal regarding re-election of an independent non-executive director serving more than nine years ("Long Serving INEDs") to revise an existing CP to require (i) independent shareholders' approval; and (ii) additional disclosure on the factors considered, the process and the board or nomination committee's discussion in arriving at the determination in the explanation on why such Long Serving INED is still independent and should be re-elected?

Yes

Please give reasons for your views.

Yes. We welcome this revision to require independent shareholders' approval for the re-election of an INED serving more than nine years (Long Serving INED) and additional disclosure. Without the vote of the controlling shareholder, the re-election of Long Serving INEDs will no longer be guaranteed. It will likely result in more rigorous review and discussion around whether a Long Serving INED is the best candidate for the role, and thus lead to more periodic board refreshment and mitigate board entrenchment.

Question 4b

Do you agree with our proposal to introduce a CP requiring an issuer to appoint a new independent non-executive director ("INED") at the forthcoming annual general meeting where all the INEDs on the board are Long Serving INEDs, and disclosing the length of tenure of the Long Serving INEDs on the board on a named basis in the shareholders' circular?

Yes

Please give reasons for your views.

Yes. Given the prevalence and persistence of Long Serving INEDs among Hong Kong issuers, we think the mandatory requirement is necessary where the problem is most severe. Apart from preserving board independence, periodic and orderly board refreshments are vital to foster the sharing of diverse perspectives in the boardroom, as well as the generation of new ideas and business strategies, which in turn would promote board effectiveness.

Question 5

Do you agree with our proposal to introduce a new RBP that an issuer generally should not grant

equity-based remuneration (e.g. share options or grants) with performance-related elements to INEDs as this may lead to bias in their decision-making and compromise their objectivity and independence?

Yes

Please give reasons for your views.

We agree with the Exchange that INEDs should not be granted equity-based remuneration with performance hurdles because it may distort their incentives in a way that is more akin to management incentives, compromising their capability to provide independent oversight of management.

However, we are generally supportive of settling part of INEDs' compensation in straight shares with no performance conditions attached. This can ensure they have more skins in the game without unduly influencing their objectivity.

Question 6a

Do you agree with our proposal to highlight that diversity is not considered to be achieved by a single gender board in the note of the Rule?

Yes

Please give reasons for your views.

Yes. While diversity is more than gender, a single gender board can hardly be considered diversified.

Question 6b

Do you agree with our proposal to introduce a Mandatory Disclosure Requirement ("MDR") requiring all listed issuers to set and disclose numerical targets and timelines for achieving gender diversity at both: (a) board level; and (b) across the workforce (including senior management)?

Yes

Please give reasons for your views.

We fully agree with the proposal on mandating all listed issuers to set numerical targets and timelines for achieving gender diversity at both board level and across the workforce. To avoid confusion, senior management shall be set apart as a separate category rather than being grouped together with the general workforce.

While we understand it takes time to find good quality candidates and an argument has often been made about the small female director candidate pool in Hong Kong, we think the three-year transition period proposed by the Exchange is unnecessarily long. We believe issuers with a single gender board should be required to appoint a director of the opposite gender at the next AGM once the revised Rules become effective.

Question 6c

Do you agree with our proposal to introduce a CP requiring the board to review the implementation and effectiveness of its board diversity policy annually?

Yes

Please give reasons for your views.

Yes. Regular reviews and enhancements are needed to ensure the diversity policy remains fit for purpose.

Question 6d

Do you agree with our proposal to amend the relevant forms to include directors' gender information?

Yes

Please give reasons for your views.

Yes. Given gender is a key attribute of board diversity, this information should be provided in order for investors and other stakeholders to assess board structure and effectiveness.

Question 7

Do you agree with our proposal to upgrade a CP to Rule requiring issuers to establish a nomination committee chaired by an INED and comprising a majority of INEDs?

Yes

Please give reasons for your views.

Yes. We welcome this upgrade and agree with the Exchange's rationale.

Question 8

Do you agree with our proposal to upgrade a CP to a MDR to require disclosure of the issuer's shareholders communication policy (which includes channels for shareholders to communicate their views on various matters affecting issuers, as well as steps taken to solicit and understand the views of shareholders and stakeholders) and annual review of such policy to ensure its effectiveness?

Yes

Please give reasons for your views.

We agree with the Exchange that effective two-way communication between issuers and shareholders are conducive to the setting or refinement of the issuer's strategy for future development. However, the establishment of a communication policy alone does little to achieve that objective. In particular, to have in-depth discussions on sustainability and governance issues, investors need to have better access to independent directors than what is currently available in Hong Kong. This is because these issues are often strategic in nature and concern matters at the board level with which management has a conflicting interest, for example executive remuneration, board refreshment, and CEO succession planning to name just a few.

In our response to question 3, we have suggested the requirement to have an independent board chair, or in the absence of which, the adoption of a Lead INED. Apart from enhancing board independence, an independent chair or a Lead INED also provides a clearer point of contact for investors wishing to engage with companies on sustainability and governance issues. Given the multiple benefits, we believe the Exchange should revisit its views or at least put forward these requirements as part of the consultation to solicit feedback from a wider audience.

Question 9

Do you agree with our proposal to introduce a Rule requiring disclosure of directors' attendance in the poll results announcements?

Yes

Please give reasons for your views.

Yes. We are supportive of the new Rule introduction because the attendance record of directors at shareholder meetings is an indicator of their commitment in fulfilling their roles.

Question 10

Do you agree with our proposal to delete the CP that requires issuers to appoint non-executive directors for a specific term?

Yes

Please give reasons for your views.

We agree that the intended purpose of the Specific Term CP, which is to allow shareholders to exercise their voting power and voice their disapproval of directors at regular intervals, is already achieved by the rotation requirement. We are therefore supportive of the deletion.

Question 11

Do you agree with our proposal to elaborate the linkage in the Code by (a) setting out the relationship between corporate governance and environmental, social and governance ("ESG") in the introductory section; and (b) including ESG risks in the context of risk management under the Code?

Yes

Please give reasons for your views.

We agree with the Exchange that an issuer's board has the responsibility to ensure effective risk management, including material ESG risks. Therefore, an effective governance structure should include the governance of ESG matters to ensure issuers understand, evaluate, and manage these risks and opportunities. Therefore, we are supportive of the proposal to reflect the scope expansion of risk management in the Code.

Question 12

Do you agree with our proposal to amend the Rules and the ESG Guide to require publication of ESG reports at the same time as publication of annual reports?

Yes

Please give reasons for your views.

We agree with the proposal because it encourages the integration of ESG into issuers' business strategy rather than being treated as a separate issue. By aligning publication timeframes, boards and management are expected to better appreciate the interdependency between financial and non-financial matters and assess ESG issues more holistically.

Question 13

Do you have any comments on how the re-arranged Code is drafted in the form set out in Appendices III and IV to the Consultation Paper and whether it will give rise to any ambiguities or unintended consequences?

Yes

Please give reasons for your views.

The re-arranged and re-named code enhances the readability and clarity of CG requirements.

Question 14

In addition to the topics mentioned in the Consultation Paper, do you have any comments regarding what to be included in the new guidance letter on corporate governance (i.e. CG GL) which may be helpful to issuers for achieving the Principles set out in the Code?

No

Please give reasons for your views.

We do not have any comments on the CG GL.

Question 15a

Do you agree with our proposed implementation dates for all proposals (except the proposals on Long Serving INED): the financial year commencing on or after 1 January 2022?

Yes

Please give reasons for your views.

Question 15b

Do you agree with our proposed implementation dates for proposals on Long Serving INED: the financial year commencing on or after 1 January 2023?

No

Please give reasons for your views.

We think all proposals should be implemented in the financial year commencing on or after 1 January 2022.