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 財經事務及庫務局
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13 April 2012

Ms Anita Sit
 Clerk to Panel on Financial Affairs
 Legislative Council Secretariat
 Legislative Council Complex
 1 Legislative Council Road
 Central
 Hong Kong

Dear Ms Sit,

Panel on Financial Affairs

**Referral from the Bills Committee on Companies Bill
 Regarding appointment of independent non-executive directors
 to listed companies**

We refer to your letter of 20 March 2012 on the issue raised by Dr Hon Philip WONG in relation to the appointment of independent non-executive directors ("INEDs") to listed companies.

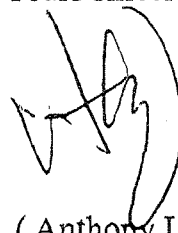
The Hong Kong Exchanges and Clearing Limited ("HKEx") conducted a consultation on the review of its Corporate Governance Code ("CG Code") and proposals to amend the related listing rules from December 2010 to March 2011. The latter includes a new Rule that at least one-third of an issuer's board must be INEDs.

As explained in the consultation paper, INEDs perform many important duties under the Listing Rules and the CG Code. For example, they participate in board committees such as the nomination, remuneration and audit committees. They also represent shareholders as a whole where other directors may have a conflict of interests. They must form an independent board committee to advise shareholders on whether the terms of a connected transaction are fair and reasonable. The new rule will bring Hong Kong in line with the standards adopted in other major markets including United States, United Kingdom, Mainland China, Australia and Singapore.

HKEx received a total of 118 submissions in response to the consultation. A substantial majority (74%) of respondents, including listed issuers, institutional investors and professional bodies, supported the proposal. To facilitate compliance, issuers that do not comply with the new rule will have until 31 December 2012 to comply. Besides, HKEx has also introduced a rule to allow an issuer a three-month period to appoint a sufficient number of INEDs to comply with the one-third rule after failing to meet the requirement, for example, in the event of unforeseeable changes in the number of INEDs due to resignation or passing away of an INED. According to HKEx's survey, by the end of February 2012, only 19% of the issuers are not yet in compliance. 81% of them only need to add one more INED to the board. Alternatively, 31% of them may reduce the number of other directors by one to comply with the new rule.

The Securities and Futures Commission has approved the relevant amendments to the Listing Rules. HKEx has been actively providing briefings for the market on the new requirements to facilitate compliance. So far, HKEx staff spoke at over 15 public seminars/briefings on the corporate governance review organised by professional bodies and organised 13 issuer seminars for over 2,400 representatives from issuers and market practitioners. Recordings of issuer seminars have been posted on HKEx's website as webcast. HKEx plans to take part in more public seminars/briefings to be organised by professional bodies and other organisations to keep the market apprised of the new requirements.

Yours sincerely,



(Anthony Li)
for Secretary for Financial Services
and the Treasury

c.c. Securities and Futures Commission (Attn: Ms Ivy Lau)