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7 October 2011

The Hon Donald Tsang GBM
Chief Executive
Office of the Chief Executive
Hong Kong

Dear *Chief Executive*

HKIoD's Submission on the 2011-12 Policy Address

The Hong Kong Institute of Directors ("HKIoD") is pleased to forward our views for your consideration in preparing the 2011-2012 Policy Address.

HKIoD is Hong Kong's premier body representing professional directors working together to promote good corporate governance. We are committed to promoting director professionalism and good corporate governance, as well as contributing towards the formulation of public policies that are conducive to the advancement of Hong Kong's international status.

In relation to the 2011-2012 Policy Address, we have conducted focused review by our Economics & Public Affairs Committee under the chairmanship of Prof Christopher To.

Thank you very much for your kind attention. Should you have any enquiries about our submission, we will be pleased to discuss with you.

With best regards

Yours sincerely
THE HONG KONG INSTITUTE OF DIRECTORS

Dr Carlye Tsui

Enc

cc: Dr Kelvin Wong, Chairman, HKIoD
Prof Christopher To, Council Member, HKIoD &
Chairman, Economics and Public Affairs Committee

Issued on: 7 October 2011

HKIoD's Recommendations for the 2011-12 Policy Address

In recent years, HKIoD has presented recommendations for the Policy Address and for the Budget. We believe much of the content of what we have said before remain timely and appropriate for the issues facing Hong Kong. In this year's recommendations for the Policy Address, we aim to highlight a few aspects in light of recent developments.

Eye on the future

As we near the end of the present term of Government, we once again ask this Government to resist the temptation to shun responsibilities and defer matters to the new administration. We ask the Chief Executive and his political team to not just act to make for smooth transition but demonstrate their commitment and foresight in laying the solid ground work necessary to make Hong Kong ready to fulfill its many ambitions and aspirations.

We have important elections to take place in the coming year. We ask the Government to take all necessary steps to ensure fair elections.

On the state of the economy

Watching over inflationary pressure

We continue to ask the Government to put watchful eyes on the mounting inflationary pressure, and be ready to help those least able to cope on their own.

Economic growth

We need growth engines to fire us back on track towards prosperity for all.

During his visit to Hong Kong, Vice Premier LI Keqiang brought to us initiatives that will have that much force and effect at promoting Hong Kong as the choice offshore RMB center, at strengthening Hong Kong's role as international financial centre, and at opening the doors for Hong Kong services to enter the Mainland market.

Hong Kong must take full advantage of this great support from the Central Government, for its own sake as well as for its contribution to the Mainland developmental progress. We look forward to detailed implementation plans in the Policy Address, to crystallize the winning tactics and to adopt appropriate policy and budgetary measures to take us forward.

The financial sector

➤ *Attracting issuers from all over*

We support further moves to attract issuers from the emerging markets as well as from the developed economies to raise capital and list in Hong Kong.

➤ *Hong Kong Stock Exchange and the Mainland exchanges*

We are open to the idea of further, closer cooperation between the Hong Kong Stock Exchange and the Mainland exchanges. Where appropriate, we will be delighted to work with appropriate parties and the community at large towards that end.

➤ *Financial market regulations and corporate governance*

To play its proper part as a major international financial centre, Hong Kong must keep up with other major financial markets at efforts to improve banking and financial regulations, and to raise corporate governance of public companies.

Operational aspects of our financial market, such as the mechanism for companies to make disclosure to ensure fair access to information, must also keep up with what is expected of a major exchange in an international financial centre.

The service sector

Fostering the growth of domestic service industries is one major element of Mainland's 12th Five year Plan, and this presents a great opportunity for Hong Kong services. We look forward to a fruitful round of negotiation towards CEPA 8, and we ask the Government to roll out complementing measures in due course to help Hong Kong service firms enter the Mainland market.

The springboard for business coming into and going outside China

Hong Kong is a major center for professional services involving cross-border matters. It has much to offer to China enterprises seeking to expand business reach around the globe. Hong Kong is also an ideal place for setting up regional headquarters or holding companies of business enterprises. If Hong Kong can reinforce itself as the choice location of regional headquarters or holding companies, it will draw and retain a strong pool of talents with responsibility to manage and direct company affairs. It will also attract experienced personnel from various professional services to Hong Kong. We again ask the Government to introduce "group loss relief" and other tax incentives and exemptions to support this development.

Towards a creative economy

A community that supports entrepreneurship will be a community that supports a creative economy. We again ask the Government to put forth strong measures to make Hong Kong an idea factory for innovators to turn creative ideas into sought-after products and services.

➤ *Hong Kong the hub of creativity and innovation*

Hong Kong can combine the research capabilities of the Mainland and Hong Kong universities and R&D centres, link up the manufacturing capacities on the Mainland or elsewhere, and draw on its capital market to provide access to investments and venture capital.

Though mass production capacities are available on the Mainland or elsewhere, prized skills and craftsmanship that once made Hong Kong proud remain found among some Hong Kong workers. They are eager for renewed opportunities to put their skills to use. They have the ability to fabricate those specialty parts or to accomplish those intricate work steps required by innovative designs. Great things can still be Made in Hong Kong with pride. Manufacturing of a different, higher-end kind can still happen here. If only Hong Kong can truly support entrepreneurship.

Stronger incubation programmes and more channels and platforms for active design knowledge exchange networking will bring designers closer to manufacturers and investors. More generous tax incentives will encourage new entrepreneurs to put efforts into developing high value-added products and services. Further supporting measures will entice existing manufacturing enterprises, many of them SMEs, to put efforts into upgrading products and services through design and innovation.

An environment that supports entrepreneurship will not only foster the growth and development of home-grown enterprises. It will also attract businesses and talents to move to the territory.

➤ *Creative clusters*

A community of people who show a sophisticated appreciation of arts and culture and who have access to wide ranging forms of performances or exhibitions are likely those who have the better seeds to creativity. The West Kowloon Cultural District shall be one key hub of arts and culture. We need, and we can spring other venues for arts, design and creative activities to form creative clusters around the territory. The former Central Police Station, former Police Married Quarters and other heritage sites are all possibilities.

➤ *Patent examination system and patent professionals*

Hong Kong should have its own original patent examination system, and a class of patent and intellectual property professionals who can help inventors and entrepreneurs, first to protect their creative inventions and other intangible assets from infringement, and also to raise monies for their further development and to turn them into products for the market.

➤ *Nurture the would-be entrepreneurs*

Rally the talents we have in society to give business advisory to would-be entrepreneurs. We often think of social enterprises offering services and products directly to customers in need. We can conceivably also have social enterprises providing advisory and consultancy services to would-be entrepreneurs wanting to start a business or to fledging social enterprises wanting to upgrade and expand. Retired but still energetic business professionals may be the ideal candidates to lead and operate such advisory consultancy services.

Infrastructure to match development

Air transport

We think there are other infrastructural development initiatives that must be considered together with the third runway proposal:

➤ *Inter-airport rail link*

We ask the Government to work with Mainland authorities towards a firm timetable for the rail link between the Shenzhen Airport and the Hong Kong International Airport. This should include a stop in Qianhai district with connections to the larger Shenzhen area.

➤ *Air transport to China cities*

A third runway will increase the volume that can be handled at take-off and landing, but air traffic is also constrained by air corridors available for flights. To facilitate air travel between Hong Kong and Mainland cities, we ask the Government to work with Mainland authorities to open up additional air corridors.

A place with the right talents for success

Corporate governance training

Rewriting Hong Kong's company law lends a perfect opportunity to enhance corporate governance. Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance.

The Companies Bill will write into the statute a duty of care, skill and diligence for company directors. If we want more from directors, then give them tools to perform and shields to protect.

If we are to make directors more accountable and to have higher expectation on how directors are to perform, there should also be in place complementary measures and mechanisms to work in tandem. Directors need rules that will protect them when they make good faith business judgment and decisions. They need adequate indemnification, insurance or other risk coverage to shield their exposure. They should be required to have a proper level of qualification before taking office. They should be expected to continually upgrade and improve their skills and knowledge. There should also be widely-accepted and recognized reference guides to their conduct and behavior.

HKIoD has long supported the promotion of corporate governance training. All company directors, when they first assume their posts, should have a firm measure of competence to perform. Over time, they should strive to remain up-to-date with best corporate governance practices.

We ask the Government to consider stipulating in the Companies Bill or otherwise to require:-

- all new appointees to the boards of listed companies to attend one or more mandatory initial training courses of specified length and content;
- by a certain date to be determined, all directors of all Hong Kong companies and all listed companies to have gone through mandatory initial training courses of specified length and content; and
- all directors of all Hong Kong companies and all listed companies to fulfill certain specified number of accredited hours in continuing professional development training over annual or other appropriate periodic cycles.

HKIoD has a continuing professional development requirement for its members, and we believe in allowing a broad range of learning activities to qualify as accredited training activities. HKIoD offers its members a variety of training courses and events with

opportunities for learning. HKIoD also recognizes self-directed learning. We also grant reciprocal credits to appropriate course offerings or learning activities organized or offered by other institutions or professional bodies. We submit that the mandatory initial training and continuing professional development requirements are not onerous on company directors.

There is evidence of an ever stronger appreciation that company directors must have and must continue to improve on their skills, knowledge and qualities required to meet the corporate governance demands of today. The benefit of proper initial training and continuous professional development for directors will flow not only for big corporations but also small companies, and not only for profit-making ventures but also social enterprises and charitable organizations.

SMEs will benefit from corporate governance training

Many SMEs are not able to take full advantage of the SME Loan Guarantee Scheme and the Special Loan Guarantee Scheme. There are a number of reasons for this, but one common impediment is that many SMEs could not demonstrate proper internal control and are ill-prepared to submit sound loan proposals. A better corporate governance scorecard will make it more likely for a business to obtain credit and financing. The Government will serve the economy well to roll out measures to help owners and directors of SMEs to obtain training to enhance their corporate governance practices.

Continuing education has got more expensive!

It is important to support the nurturing and development of our workers. The restriction and conditions for the current \$10,000, once a lifetime, maximum subsidy for continuing education deserve to be re-examined. For instance, the lifetime cap should be increased, or a rolling cap be introduced. The aim is to make the scheme more flexible and accessible.

Care for the elderly

Retiring to the Mainland

People should have the real option of retiring to the Mainland. We again ask the Government to make the “fruit money” Old Age Allowance more portable.

Land resources and housing

Land policy

Land supply should not just be a matter of revenue generation. The decisions to put Hong Kong’s land resources to various use must not only comport with strategic developmental goals but also with sustainable development of the territory on a general scale. Hong Kong can already expect the resident population to continue to grow. Integration with the Pearl

River Delta and the rest of the Mainland will mean Hong Kong also has to host a growing floating population. All these trends in demographics call for a rethink of how to utilize Hong Kong land resources to keep Hong Kong a pleasant livable place.

Public rental housing

Low income families certainly deserve our help to provide them with public rental housing. We ask the Government to make good on the promise of the three year waiting time.

Homeownership scheme

A stock of homeownership scheme housing units can give qualifying buyers alternatives to the costlier private housing market. We support a new supply of homeownership scheme units. While we wait for them to come into the market, we ask the Government to design better incentives to make for the quicker turnover of existing homeownership scheme housing units in the secondary market. Whether for the existing stock or the new supply, whether the first sale or in the secondary market, we strongly believe homeownership scheme units should only be for qualifying buyers to buy, thus enforcing a segregation of public housing market from the private market.

Home for the elderly

With a growing elderly population, we need to do more to make sure the old age can find housing units that are suitable for their living needs. We ask for more retirement communities with integrated medical and social amenities designed for old age residents.

Retiring to the Mainland is a real trend. It has some practical advantages. People should be given the real option of retiring to the Mainland. The Government should support investments to build retirement residence communities on the Mainland, with integrated medical facilities, for Hong Kong retirees to retire on the Mainland.

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