

Part B Consultation Questions

Please reply to the questions below that are raised in the Concept Paper downloadable from the HKEx website at: [add link]. Please indicate your preference by ticking the appropriate boxes.

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

We encourage you to read all of the following questions before responding.

1. Should the Exchange¹ in no circumstances allow companies to use WVR structures?

Yes (in no circumstances allow companies to use WVR structures)

No

Please give reasons for your views below.

For Hong Kong to maintain its role as a leading financial centre and to remain competitive as other global financial centres, Hong Kong's capital market will need to stay up to date on changes to its market landscape, to stay competitive, to balance listing applicant's objectives and investors' interest, and to provide some level of innovation whilst ensuring investors protection. In addition, we should consider how WVR structures would be beneficial to potential growth of companies e.g in some cases, long-termism may be promoted as they give existing managers / management the freedom to run a business for the purpose of maximising growth and value for shareholders over the long term whilst combating the short-termism of markets.

Thus, we encourage the Exchange to periodically review the Listing Rules and explore the feasibility to allow companies to use WVR structures depending on the merits of the case.

Please only answer the remaining questions if you believe there are circumstances in which companies should be allowed to use WVR structures.

2. Should the Exchange permit WVR structures:

(a) for all companies, including existing listed companies; or

(b) only for new applicants (see paragraphs 147 to 152 of the Concept Paper);
or

(c) only for:

(i) companies from particular industries (e.g. information technology companies) (see paragraphs 155 to 162 of the Concept Paper), please

¹ References to "the Exchange" in this Questionnaire mean The Stock Exchange of Hong Kong Limited, a HKEx subsidiary.

specify below which industries and how we should define such companies;

or

- (ii) “innovative” companies (see paragraphs 163 to 164 of the Concept Paper), please specify how we should define such companies below;

or

- (iii) companies with other specific pre-determined characteristics (for example, size or history), please specify with reasons below;

or

- (d) only in “exceptional circumstances” as permitted by current Listing Rule 8.11² (see paragraph 81 of the Concept Paper) and, if so, please give examples below.

Please give

As mentioned in the Concept Paper, whilst WVR structures are particularly prevalent in the information technology sector, they are also adopted by companies in other sectors and benefits of such structures should not be limited to a specific industry sector. Restricting the use of WVR structures to companies in a particular industry (such as information technology and innovation companies) would be somewhat inflexible and may cause confusion and create 'classification' issues. We believe a broad-based evaluation of WVR structure across industry sectors is the preferred approach.

² GEM Rule 11.25.

reasons for your views below.

We are of the view that consideration should be taken into account on a case by case basis, not limited to specific industries and that further consultation on the criteria / characteristics such as size, should be undertaken.

If you wish, you can choose more than one of the options (b), (c) and (d) above to indicate that you prefer a particular combination of options.

3. If a listed company has a dual class share structure with unequal voting rights at general meetings, should the Exchange require any or all of the restrictions on such structures applied in the US (see the examples at paragraph 153 of the Concept Paper), or others in addition or in substitution?

Please identify the restrictions and give reasons for your views below.

In order to maintain Hong Kong's leading role as an international financial centre, to uphold its strong principle of minority investor protection and to sustain its corporate governance framework, we are of the view that restrictions on WVR structures applied in the US need to be considered and imposed (as appropriate) by the Exchange should such structures be introduced in Hong Kong.

Other possible additional restrictions for consideration include:

- i) increasing the number of independent non-executive directors;
- ii) in cases of net operating losses for consecutive 3 years (subject to non management shareholders approval) WVR structure will be unwound;
- iii) in unusual / extraordinary circumstances where super-voting shareholders are deemed to be abusing the WVR structure, provisions for the WVR structure to be potentially unwound through majority approval by 75% of voting rights of the common shareholders (which is consistent with the requirement for the withdrawal of a listing); examples of abuses could be further considered, which would include repeated inability of management to honour intended business plans / objectives in cases of major corporate activities such as disposals, acquisitions, share buybacks, connected transactions.

We are supportive of the Exchange in evaluating fully both the benefits and potential risks of the WVR structures and to introduce regulations to ensure companies are able to take advantage of such benefits whilst minimizing any related risks.

4. Should other WVR structures be permissible (see Chapter 5 of the Concept Paper for examples), and, if so, which ones and under what circumstances?

Please give reasons for your views below. In particular, how would you answer Question 2 and Question 3 in relation to such structures?

Dual class shares are probably the most common type of WVR structures used in other countries, such structure was also allowed (B shares) in Hong Kong before 1987, thus, we believe that if WVR structures were to be permitted in Hong Kong, dual class structures can be considered as the most appropriate type allowed at the initial stage. However we are supportive of the Exchange in considering other alternative structures in the future when market receptiveness to dual class shares increases.

5. Do you believe changes to the corporate governance and regulatory framework in Hong Kong are necessary to allow companies to use WVR structures (see paragraphs 67 to 74 and Appendix V of the Concept Paper)?

Yes

No

If so, please specify these changes with reasons below.

Hong Kong's existing corporate governance and regulatory framework are well established. To cater for WVR structures, we are of the view that existing corporate governance practices should be further enhanced to ensure our standards stay unaltered.

For companies with WVR structures, enhanced supervision over the management team, enhanced disclosure, increasing the number of independent non-executive directors, more stringent connected transaction criteria / lowering the threshold for connected transaction exemption are possible areas for further consideration.

6. Do you have any comments or suggestions regarding the additional matters discussed in paragraphs 33 to 47 of the Concept Paper:

- (a) using GEM, a separate board, or a professional board to list companies with WVR structures (paragraphs 33 to 41 of the Concept Paper); and

No, we do not feel there is a need to allow companies with WVR companies to list on GEM or a newly created professional (or other) board. An additional alphabet to be added in the suffixes to the short stock names can be used as labels to distinguish them as companies with WVR structures, similar to what is currently used by the Exchange (such as "S" for secondary listings, "DR" for depositary receipts).

- (b) the prospect of overseas companies seeking to list for the first time on the Exchange with a WVR structure or seeking a further primary or secondary listing here (see paragraphs 44 to 47 of the Concept Paper)?

As a first step to explore the WVR structure, we suggest the Exchange to initially limit companies looking to adopt the WVR structure only to those which are seeking initial new listings in Hong Kong, on the basis that the Exchange will have complete discretion to thoroughly vet the candidate assuring its compliance with the requirements and rules of the Exchange. Appropriate risk disclosures in the listing document need to be made so that investors have full knowledge that the shares carry different voting rights and that they should assess carefully before making any investment decisions.

7. Do you have any other comments or suggestions regarding WVR structures?

Given Hong Kong's long-standing reputation as one of the most popular destinations for capital fund raising amongst major global financial markets, we are confident that our regulatory and corporate governance framework can be strengthened to accommodate changes that will allow for more opportunities and bring us to the next level of development. We note that in October 2014, Singapore has amended its Companies Act to allow the issue of shares with multiple voting rights, which is now in line with our existing Hong Kong Companies Ordinance. With increased competition from other listing venues, the Exchange should continue to act quickly to consider possible changes to regulatory requirements.

We support the Exchange to carry out a second stage formal consultation process to allow companies to use WVR structures.

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