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Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

17th Novemeber 2014

Dear Sirs,

Re: Concept Paper on Weighted Voting Rights

We refer to the subject concept paper (“the Paper”) and would like to put forward our view for your consideration. Unless otherwise defined, terms used herein shall have the same meanings as those defined in the Paper.

We support the Exchange’s initiative to seek views on whether WVR structures should be permissible for companies currently listed or seeking to list in the Exchange as understanding the needs of the market and keeping the Listing Rules to reflect currently acceptable standards in the market place is crucial to the development of our market.

We set out our detailed responses to the questions included in the Paper in the attached.

We hope the attached responses are helpful. If you would like to discuss any matters further, please do not hesitate to contact [REDACTED]

Yours faithfully,

[REDACTED]

Enclosure

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.

With the increasing number of companies using WVR structures and the globalisation of financial markets, we consider that a framework should be explored and developed to allow companies with WVR structure to be listed on the Exchange while upholding the quality of shareholder protection so as to maintain the competitiveness of Hong Kong as a leading listing venue.

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

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

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 reasons for your views below.

² GEM Rule 11.25.

We consider WVR structures should be restricted to new applicants only as investors in a company with a WVR structure at the IPO stage will have full knowledge of the fact that their rights will be inferior to those given superior rights when they make their investment decision and as they normally do not have a prior stake in the company, there will not be question of their existing rights being unfairly restricted or reduced by the implementation of a WVR structure at the IPO stage.

For existing listed companies, we consider they should not be allowed to implement WVR structure after listing as that may unfairly restrict or reduce the rights of minority shareholders.

With implementation of additional measures to uphold the quality of shareholder protection as set out in Q5 below, we consider WVR structures can be permitted for companies from different industries.

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.

We consider a model similar to the “restriction on transfer” adopted by US listed companies should be explored as this will ensure the extra power is only rest with original holders whom the investors have assessed and agreed to put their trust on.

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?

With implementation of additional measures to uphold the quality of shareholder protection as set out in Q5 below, we consider other WVR structures can be permitted.

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.

As WVR structure may potentially incentivise controlling shareholders to seek private benefits at the cost of non-controlling shareholders and discourage management to act in the best interests of the company as a whole and to perform well, we consider additional measures should be introduced to strengthen the corporate governance and disclosure requirements to uphold the quality of shareholder protection before allowing companies with WVR structures to be listed on the Exchange.

We recommend the Exchange to consider enhancing the power of independent non-executive directors and independent shareholders in monitoring the performance of the management, determining the remuneration and continuation of the management and making other major corporate decisions. Also, more robust disclosure requirements in respect of transactions with the controlling shareholders, incumbent managers and their connected persons should be introduced.

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

We consider so far the companies with WVR structures are clearly marked in their stock names and corporate communications, investors can have their investment decision made on an informed basis. Accordingly, we do not consider it is necessary to use GEM, a separate board, or a professional board to list companies with WVR structures.

(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)?

No comment.

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

No other comments.

- End -



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