



18 October 2016

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

Dear Sirs,

Re: Joint Consultation Paper on Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation

We are writing in relation to the captioned consultation paper (the "Consultation Paper") and would like to express our views to the proposals set out in the Consultation for reasons set out below. Unless otherwise specified, capitalised terms herein shall have the same meanings as those defined in the Consultation Paper.

1. No Convincing Reasons for the Proposed Changes

We believe the current listing approval and regulatory regime has effectively supported Hong Kong as one of the most popular destinations for capital-raising in the world, which fact has been recognized in the Consultation Paper. Therefore, any major reform of the regime must be justified by a genuine need, and the proposed changes must be effective to address and rectify the identified flaws. The Proposals involve the creation of two additional committees to perform what is already being done adequately within the existing framework, and the reasons for the proposed changes to the Exchange's decision-making and governance structure have not been articulated in any convincing way in the Consultation Paper. We currently do not see the need for the proposed changes or the benefits which could be achieved by implementing the Proposals.

2. Increase in SFC's Powers

Following the implementation of the Proposals, the current Listing Committee, which is made up of 28 market experts comprising the Exchange's Chief Executive and representatives of listed companies, investors, accountants and lawyers, would continue to approve straightforward listing applications and listed issuer matters without any suitability concerns or broader policy implications. The Listing Committee, however, will lose its power to set listing policies or consider complex or novel matters relevant to listing applicants or listed issuers, with that power shifting to two proposed new committees, namely, the Listing Policy Committee ("LPC"), which will focus on listing policies, and the Listing Regulatory Committee ("LRC"), which will decide on IPO and post-IPO matters that present suitability concerns or have broader policy implications. The two new committees will be equally represented by the Exchange and the SFC.



We have concerns that this might result in increasing dominance of the SFC in the listing approval and regulatory regime, in particular in complicated cases. The SFC members of the new LPC and LRC, being regulators, might understandably take a more conservative stance. Every subjective provision of the Listing Rules (for example, Rule 2.04 'the Exchange may impose additional requests'; 8.04 'the issuer and its business being, in the opinion of the Exchange suitable for listing'; 14.22/3 re prospective aggregation of transactions; 14A.07(6) a person deemed connected by the Exchange) is prone to being interpreted in the least commercial manner. In the context of new listings, possible result is that only companies who would obviously meet the suitability criteria would apply to list in Hong Kong. This could restrict listing applicants to very large companies and would limit investor choice and deprive SMEs of the funding they require for growth and expansion.

On a matter of procedure, first impressions give the view that splitting the LPC and LRC on the basis of equal representation as regards the nominees of the Exchange and the Committee (with the chairman having no casting vote) seems fair. That said, most matters presented for consideration will require an affirmative vote to proceed, meaning, in practice, that the SFC will be availing itself of a veto power to block all contentious, commercial, risk-laden proposals of new applicants or listed issuers. The status quo will prevail.

3. Inefficient Use of the Expertise and Experience of Market Practitioners

The determination of suitability for listing will generally be made by the six members of the LRC under the Proposals and not by the Listing Committee, but it is precisely in the complex cases that the broad expertise and experience of market practitioners is required. Apart from new listing applications, this view also applies to LRC's decision-making role on matters involving listed issuers. We are of the view that the presence of market practitioners on the relevant decision-making body offers flexibility and adaptability in a rapidly changing market, and therefore is essential to the efficient functioning of the Hong Kong market.

4. Additional Layer of Regulatory Oversight

Improving the efficiency of the listing process is one of the stated objectives of the Proposals. However, with the extra layer of regulatory oversight, we do not see how the listing process would be more efficient.

We believe that both the Listing Department and the Listing Committee will be more readily pre-disposed to consider that matters before either body should, for prudence sake, be considered an "LRC Matter". Rather than 'dare' to make a decision, both bodies will feel that they cannot be wrong in exercising their discretion to refer any matter to the LRC, so as to avoid criticism. The extra layer on top of the Listing Committee will slow down the decision-making process on listing applications and create an unnecessary hurdle for companies which are looking to list in Hong Kong. We have concerns that this could lead to over-regulation and will cause considerable uncertainty which could, again, potentially undermine the Exchange's competitiveness against other financial markets.



5. Alternative Solution

We believe a more effective alternative to enhance coordination and cooperation between the Exchange and the SFC would be to introduce SFC representatives into the Listing Committee. Decisions can still be made at the Listing Committee level while at the same time having the benefit of the knowledge and perspectives of the SFC.

As seen from the above, the Proposals raise a number of important issues on the future development of the Hong Kong stock market as an international fund-raising exchange, potentially undermining Hong Kong's status as a leading international financial market. We are therefore unable to support the proposed changes set out in the Consultation Paper.

Yours faithfully,

For and on behalf of
LAI FUNG HOLDINGS LIMITED



.....
Company Secretary