Submitted via Qualtrics

Company/Organisation view

Question 1

Do you agree with the proposal to set the limit on general mandate for issuance of new shares at 20% of the total issued shares of a PRC issuer, instead of 20% of each of domestic shares and H shares?

No

Please provide reasons for your views.

A key feature of A shares, which are domestic shares, and H shares is that they are non-fungible, despite progress made on Stock Connect and also on the H share full circulation scheme (for domestic shares not listed on A share market). A shares and H shares are traded in different markets, very often with significant divergence in their traded share prices. This indicates that share prices of A shares and H shares are a function of investor base, liquidity, public float, and other local conditions in their respective markets.

The proposal will allow issuers to seek a general mandate for a much larger issuance relative to the scale of issued A shares or H shares. Consider a company with its total issued shares composed of 80% of A shares and 20% of H shares. A general mandate for issuance of new shares at 20% of the total issued shares means it would be at management's discretion to double the public float of H shares at a maximum of 20% discount to H share prices. This could cause severe disruption to the H share price and significantly affect the interest of H shareholders. The same concern applies to cases where A shares account for a relatively small proportion of total issued shares. We consider such a general mandate would entail excessive flexibility and may not be in the best interests of either A shareholders or H shareholders. BlackRock in general finds that long-term investors like our clients are better protected when our investee companies restrict the size of issuance and maximum discount to 10% in a general mandate.

While H shares are in general trading at a discount to A shares, such that it is more efficient in terms of cost of equity to issue A shares rather than H shares for equity financing, in practice, it is not uncommon to observe dual listed companies using general mandate to issue H shares. The proposed amendments would intensify H shareholders' dilution risk and ability to opine on debatable corporate finance decisions. We recommend that the Exchange postpone the proposal until A shares and H shares become fully fungible in the future.

Question 2

Do you have a concern that given fund raisings through the issuance of A shares may result in an increase in the number of A shares over H shares, the market size and liquidity of the H share market may reduce relative to the A share market? Do you think there should be other provisions to promote the long term development

of the H share market, if so please provide reasons for your views and any suggestions.

Yes

Please provide reasons for your views and any suggestions.

Currently, class meetings provide a mechanism for A shareholders as well as H shareholders to each have a veto on proposals that may result in different economic outcomes for them and hence may be considered inequitable. Equalizing voting power by removing the class meeting requirements would undermine shareholders' ability to vote down potentially inequitable proposals to one group between the A shareholders and H shareholders. We believe these fairness concerns justify maintaining existing requirements for separate approval of certain proposals by A shareholders and H shareholders. We consider it an important role for the regulator, in protecting the interests of investors, to enable H shareholders as well as A shareholders to vote separately on these proposals to ensure they are seen to be equitable and reasonable to both sides. Following the repeal of the distinction between domestic shares and H shares as different "classes" of shares, we urge the Exchange to introduce alternative measures for issuers with equities traded on both A share and H share markets to safeguard the interests of all shareholders against potential inequitable treatment.

While the separate class meeting was introduced initially to offer extra protection to H shareholders, it has served as a general minority shareholder protection mechanism as well. In general, reduced protection for minority shareholders may diminish the attractiveness of investments. We recommend the Exchange consider introducing new measures to preserve this element of minority shareholder protection despite the repeal of class meeting requirements. This will preserve the current level of shareholder protection in the H share market, maintain its attractiveness to international investors, and secure the foundations for the long-term development of the H share market.

As such, we encourage the Exchange to consider the following:

- Provide guidance to clarify that an issuer may opt to preserve the class meeting arrangement if already in its articles of association, as the Listing Rules no longer require but do not forbid class meetings even after this change.

- Provide guidance that an issuer in submitting amendments to its articles of association for the removal of class meeting requirements, should have this approved by separate class meetings for A shareholders and H shareholders as has been stipulated in the Mandatory Provisions and incorporated in their existing articles of association (as long as their current articles of association do not prevent them from doing so).

- Formulate, after consulting the market, a list of proposals that may have potentially inequitable impact to the interests of A shareholders and H shareholders and, until such time in the future that A shares and H shares may become fungible, to require separate approval by A shareholders and H shareholders for these proposals while recognizing that both groups are shareholders of the same class of shares in terms of economic rights.

- Introduce measures of shareholder protection for minorities in both the A share and H share markets to maintain a similar level of protection for shareholders of PRC issuers, and potentially apply these measures to all issuers if there is a felt need for a consistent regulatory approach across other issuer jurisdictions.

- Require companies to provide an analysis of voting results of A shareholders and H shareholders separately, and if a company were to proceed with a proposal that would previously have been blocked by either group of shareholders, to provide a statement explaining why this is in the interests of all shareholders.

In regard to H shareholder protection, international investors maintain an appetite to resolve disputes via arbitration in an internationally recognized body such as the Hong Kong International Arbitration Centre. There are concerns that there is no Reciprocal Arrangement between Hong Kong and mainland China in force for judgments dealing with disputes involving H shareholders and arising from a PRC issuer's articles of association or the PRC Company Law, such that a shareholder who obtains a judgement from a Hong Kong court cannot directly apply to the court of the issuer's place of incorporation for enforcing the Hong Kong judgment. We recommend such disputes should remain to be settled by arbitration in either Hong Kong or the PRC at the claimant's election.

Question 3

Do you agree with the proposal to set the limit on scheme mandate for share schemes at 10% of the total issued shares of a PRC issuer, instead of 10% of each of domestic shares and H shares?

No

Please provide reasons for your views.

As explained in our response to question 1, share prices of A shares and H shares are a function of investor base, liquidity, public float, and other local conditions in their respective markets. We would note the potential impact of such excessive flexibility and significantly greater dilution risks if the mandate to issue new shares equal to 10% of the total issues shares is implemented primarily in the H share market which could lead to significant negative impact to the traded price. However, any trend for such placements to be mainly in the A share market could lead to H share investors becoming an ever smaller minority among the shareholders of these companies and thus becoming more marginal in the considerations given by management in corporate proposals.

Question 4

Do you agree with the proposal to remove the requirements for directors, officers and supervisors to provide undertakings to the PRC issuers and their shareholders?

Please provide reasons for your views.

Question 5

Do you agree with the proposal to move the requirements for compliance advisers set out in Rules 19A.05(2) and 19A.06(3) to Chapter 3A?

Please provide reasons for your views.

Question 6

Do you agree with the proposal to remove Rules 19A.05(3), 19A.05(4), 19A.06(1) and 19A.06(4)?

Please provide reasons for your views.

Question 7

Do you agree with the proposal to remove the requirements relating to online display and physical inspection of documents under Rules 19A.50 and 19A.50A?

Please provide reasons for your views.

Question 8

Do you agree with the proposal to remove the requirements relating to disclosure of material differences between the laws and regulations in the PRC and Hong Kong in listing documents of new applicants that are PRC issuers?

No

Please provide reasons for your views.

Material differences between the laws and regulations in the PRC and Hong Kong are an important risk factor that investors need to be aware of. We believe investors should be reminded in the prospectuses for H share listings that H shareholders will no longer have an effective veto on decisions such as share issuance through class meetings, and for issuers that will be dual-listed in A share and H share markets, risks associated with potentially deemed unfair treatments to A shareholder and H shareholders may arise from the fact that A shares and H shares are non-fungible.