

20 May 2020

**BY HAND AND BY EMAIL**

Hong Kong Exchanges and Clearing Limited  
8<sup>th</sup> Floor, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

Dear Sirs,

**Consultation Paper on Corporate WVR Beneficiaries**

Ernst & Young is pleased to respond in this letter to the request of The Stock Exchange of Hong Kong Limited for feedback on the captioned consultation paper. Terms used in this letter shall have the same meaning as defined in the consultation paper.

We welcome the Exchange's continued efforts to ensure that Hong Kong's listing regime is competitive amongst its international peers and to uphold robust standards of governance and investor protection in our market.

The current proposals are to consider whether to broaden the current WVR regime to allow corporate entities to benefit from WVR. We note that the Exchange has proposed both qualitative and quantitative requirements to endeavour to strike a reasonable balance such that only sizeable ecosystem leaders with good governance can be corporate WVR beneficiaries and the WVRs are only valid so long as the listing applicant continues to benefit materially from the ecosystem after listing.

We agree that it is important to put in place sufficient safeguards and ring-fencing in the event the Exchange implements the proposals to expand the WVR regime to corporate beneficiaries. We have the following observations about the ecosystem and sunset proposals to share with the Exchange:

We consider that the ongoing ecosystem requirement is the most important prerequisite and that more thoughts should be put into proposals relating to such ecosystem. The justification for allowing the ecosystem corporate leader to hold WVR is the difficulty for the listing applicant to replicate such ecosystem on its own. Whilst a listing applicant may have relied on its parent company for business development and continued to do so at time of listing, it should operate independently as much as possible after listing to justify a separate listing status. Whilst it may not be possible for all listing applicants to develop their own ecosystems, we wonder whether there will be a conflict of interests because a corporate WVR beneficiary will have no incentive to assist the listing applicant to develop its own ecosystem after listing so as to maintain its WVR. It is

also proposed that the maximum period of the time-defined sunset clause is 10 years with the possibility of an indefinite number of renewals if approved by independent shareholders. Whilst the corporate governance committee should confirm the WVR beneficiary's continued contribution, we wonder whether the committee should also evaluate on a regular basis whether the company is able to develop its own ecosystem; and if yes, whether the company has implemented such a plan. This will also provide more information for independent shareholders to decide whether to vote for any renewal. We also wonder whether the corporate governance committee's confirmations should be based on independent professional advice. We do not agree that corporate WVRs should be allowed to be renewed for an infinite number of times. Whilst any number can be arbitrary and a short period may erode the value of the corporate WVR structure to listing applicants, we are of the view that some limitation on the number of approvals for renewal by shareholders should be put in place.

Should you have any questions on the above comments, please do not hesitate to contact our

[Redacted]

Yours faithfully,

[Redacted]

*Certified Public Accountants*  
Hong Kong