

Part B Consultation Questions

Please reply to the questions below that are raised in the Consultation Paper downloadable from the HKEX website at: <https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/January-2020-Corporate-WVR/Consultation-Paper/cp202001.pdf>. 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. Do you agree, in principle, that the Exchange should expand the existing WVR regime to enable corporate entities to benefit from WVR provided that they meet appropriate conditions and safeguards?

Yes

No

Please give reasons for your views. If your agreement is conditional upon particular aspect(s) of the proposed regime being implemented, please state what those aspect(s) are.

We agree that the WVR regime should be expanded to enable corporate entities to benefit from WVR. Providing that there are sufficient safeguard in place to ensure that there is alignment of interests between the corporate WVR beneficiary and the minority shareholders, there is no reason why we only acknowledge and recognise the contribution of a visionary individual founder but not corporate shareholders who are also instrumental to the growth and success of the listing applicant. It is of vital importance to also recognise how unicorns in innovative sectors have attributed to the success of a potential listing applicant via its ecosystem, strategic guidance and synergistic benefits that they bring. It is in fact frequently the case that the corporate shareholders may have made as much of a contribution to the development of the listing applicant as a visionary individual founder. In addition, as noted in the Consultation Paper, the exclusion of corporate WVR beneficiary is a key challenge of the Hong Kong market as emerging and innovative listing applicants have chosen other listing venue such as the US exchanges as they accommodate corporate WVR beneficiaries. As a result, Hong Kong is not only at a competitive disadvantage, but investors in Hong Kong are deprived of the opportunity to invest in such companies, resulting in a lack of diversity in terms of investment opportunities.

2. Do you agree that a corporate WVR beneficiary must be either the Eligible Entity or a wholly owned subsidiary of the Eligible Entity?

Yes

No

Please give reasons for your views. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

We agree that the Exchange should offer a degree of flexibility for the WVR shares to be held by a SPV for various reasons such as tax treatment.

3. Recognising that, with at least a 30% economic interest, the corporate WVR beneficiary would be regarded as having “de facto control” of the relevant listing applicant even without WVR and would be considered a Controlling Shareholder under both the Listing Rules and the Takeovers Code, the Exchange has proposed a minimum shareholding requirement for a corporate WVR beneficiary to own at least 30% of the economic interest in the listing applicant.

(a) Do you agree with the proposed requirement for a corporate WVR beneficiary to own at least 30% of the economic interest in the listing applicant and be the single largest shareholder at listing?

Yes

No

Please give reasons for your views.

We are of the view that imposing the requirement that a corporate WVR beneficiary should own at least 30% of economic interest AND also be the single largest shareholder at listing may potentially neutralise the impact of allowing for corporate WVR beneficiaries in the first place. We recognise the need that the ability to hold WVR to be limited to key shareholders, which by definition would include its level of shareholding. However, we do also envisage many circumstances where such a key corporate shareholder may not be the single largest shareholder at the time of listing. This may particularly be the case where the listing applicant also has an individual founder (or more than one). In fact, it is arguable that if the corporate WVR beneficiary has at least 30% economic interest and is also the single largest shareholder, then it may be less likely that the listing applicant will seek for listing with a WVR structure in the first place. We invite the Exchange to consider imposing the requirement that a corporate WVR beneficiary should own at least 30% of economic interest at listing OR be the single largest shareholder at listing. WVR structures are usually sought in situations where key shareholders including a visionary founder or a key corporate shareholder does not hold a controlling stake in the listing applicant (as the company may have gone through rounds of pre-IPO fundraising due to its strong funding needs), but yet the visionary founder (who is the single largest shareholder) would like to control a controlling stake in terms of its voting rights upon listing so that he/she/it can continue to exert its influence as such innovative companies still very much rely on the insights, capabilities and visions of the founders. We are of the view that being either the single largest shareholder or holding 30% of economic interest at listing would be sufficient to ensure that the corporate WVR beneficiary's interest is aligned with those of the other minority shareholders.

(b) Do you agree that a corporate WVR beneficiary's shares should lapse if it fails to maintain at least a 30% economic interest on an ongoing basis?

Yes

No

Please give reasons for your views.

If our proposal as set out in our answers to Question 3(a) is adopted, such on-going compliance requirement shall be revised correspondingly, to either maintaining at least 30% economic interest in the WVR issuer, or maintaining the corporate WVR beneficiary's position as the single largest shareholder of the WVR issuer (as the case may be) on an ongoing basis.

4. (a) If your answer to Question 3(a) is "no", do you propose a different economic interest in order for the applicant to benefit from WVR and, if so, what this should be?

Yes

No

If so, please state these conditions/requirements.

Please refer to our answers to Question 3(a).

- (b) Do you believe that any other conditions and requirements should be imposed if a lower economic interest threshold is allowed?

Yes

No

If so, please state these conditions/requirements. Please give reasons for your views. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

For an individual WVR beneficiary, the Exchange has the discretion to accept a lower minimum shareholding percentage if the lower underlying economic interest still represents a very large amount in absolute dollar terms (for example if the applicant has an expected market capitalisation of over HK\$80 billion at listing) taking into account other factors about the applicant as the Exchange may consider appropriate. We recommend the Exchange to provide for similar provision in the case of a corporate WVR beneficiary, where the Exchange has discretion to accept a lower level of economic interest than the prescribed one if the listing applicant has a high market capitalisation.

If our proposals as set out in our answers to Question 3(a) and Question 3(b) are adopted, in the circumstances where the corporate WVR beneficiary is the single largest holder (but does not own at least 30% of economic interest), the on-going compliance requirement that is applicable would be to maintain its status as the single largest shareholder on an ongoing basis. In such circumstances, the Exchange could consider imposing a lock-up requirement that the corporate WVR beneficiary shall hold a certain percentage of minimum economic interest for a reasonable period of time (such as a 12 month period to replicate the lock-up requirements imposed on controlling shareholders under Rule 10.07) to demonstrate its commitment to the WVR issuer.

5. Do you agree with the proposed exception from the Rules to permit an issuance of shares on a non-pre-emptive basis to a corporate WVR beneficiary without shareholders' approval if the below conditions are satisfied?
- (a) The subscription is solely for the purpose and to the extent necessary to allow the corporate WVR beneficiary to comply with the 30% economic interest requirement;
 - (b) such shares do not carry WVR;
 - (c) the subscription will be on the same terms or better (from the perspective of the listed issuer) as the original issuance that triggered the need for the corporate WVR beneficiary to subscribe for additional shares in order to comply with the 30% economic interest requirement; and
 - (d) the subscription price paid by the corporate WVR beneficiary for the anti-dilution shares is fair and reasonable (having regard, among other things, to the average trading price of the listed issuer's stock over the preceding three months).
- Yes
- No

Please give reasons for your views. If your answer to Question 5 is "no", and you agree with the requirement for the corporate WVR beneficiary to hold at least 30% of economic interest in the issuer on an ongoing basis, what alternative measures would you propose to enable such minimum economic interest to be maintained on an ongoing basis? In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

It is important to provide for exception so that the WVR will not lapse under certain circumstances which are beyond the control of the corporate WVR beneficiary (e.g. dilution due to new issuance of shares). If the proposal in our answers to Question 3(a) is adopted, exception should be provided for the corporate WVR beneficiary to maintain its status as the single largest shareholder or maintain the 30% economic interest level (as the case may be). In the circumstances where the corporate WVR beneficiary is the single largest shareholder, we invite the Exchange to consider granting a suitable grace period to allow the corporate WVR beneficiary to remedy the situation if it ceases to be the single largest shareholder due to another shareholder's increase in interest in the WVR issuer. Moreover, in such a situation, where a shareholder had qualified as a WVR beneficiary by being the single largest shareholder, we suggest that if it increases its shareholding to 30%, even if the other shareholder continues to be the largest shareholder (as this is something out of the WVR beneficiary's control), it would still be able to maintain its status as a WVR beneficiary.

6. Do you agree with the proposed requirement that a corporate WVR beneficiary must have held an economic interest of at least 10% in, and have been materially involved in the management or the business of, the listing applicant for a period of at least two financial years prior the date of its application for listing?

Yes

No

Please give reasons for your views. If your answer to 6 is "no", do you agree that a historical holding requirement should be imposed? If so what alternative threshold or holding period would you propose?

In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

We recommend the Exchange to provide clear guidance and/or list of factors that the Exchange will take into consideration when determining whether or not a corporate WVR beneficiary has been materially involved in the management or business of the listing applicant in order to provide certainty and consistency in its application. Given the different facts and circumstances of each listing applicant, it would be unlikely that a set list of such factors would be able to cater for each listing applicant, and therefore such list of examples should not be an exhaustive list. We invite the Exchange to consider factors such as having a board seat in the listing applicant for at least two financial years prior to listing application, co-operation arrangements / agreements between the listing applicant and the corporate WVR beneficiary such as licensing of trademarks / intellectual property, where certain members of the listing applicant's senior management may have previously been employees of the corporate WVR beneficiary, as some of the factors that indicate material involvement in management or business of the listing applicant.

7. (a) Do you agree that the maximum ratio of weighted votes permitted for shares of a corporate WVR beneficiary should be lower than the maximum ratio permitted for individual WVR beneficiaries?

Yes

No

Please give reasons for your views.

We understand that the rationale for imposing a limit of maximum five votes per share is to limit the effect of misalignment of interests. However, we do not see any reasons why the misalignment of interests between a corporate WVR beneficiary and ordinary shareholders would be more significant than the misalignment of interests between an individual WVR beneficiary and ordinary shareholders that justify a lower maximum ratio of weighted votes per share.

- (b) Do you agree that this ratio should be set at no more than five times the voting power of ordinary shares?

Yes

No

If not, what is the maximum ratio that you would propose? Please give reasons for your views. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

With reference to our answers to question 7, we suggest to adopt the same limit as for the individual WVR beneficiaries, with a maximum of ten votes per share.

8. In summary, the Exchange recognises that the synergistic benefits of the ecosystem and the strategy and vision of the leader in developing the ecosystem may be difficult for a listing applicant to replicate on its own or with other business partners; and that this provides a basis for the listing applicant to determine that it is in its interest to issue WVR shares to the lead company within the ecosystem in order to reinforce its own role within the ecosystem. Accordingly, the Exchange has proposed that a corporate WVR beneficiary should be required to demonstrate its contribution through the inclusion of the listing applicant in its ecosystem in order to benefit from WVR. Do you agree with the Exchange's proposal in relation to the ecosystem requirement?

Yes

No

Please give reasons for your views.

As a corporate is different from a natural person where he or she can demonstrate its contribution by taking on an active executive role, it is critical to ensure that the relevant corporate WVR beneficiary has made substantial contribution to the growth of the WVR issuer and to demonstrate that the WVR issuer will continue to benefit by being a part of the ecosystem.

9. Do you agree with the required characteristics of an ecosystem as set out below:
- (a) a community of companies (which includes the listing applicant) and other components (which may be non-legal entities such as business units of the corporate shareholder, user or customer bases, applications, programs or other technological applications) that has grown and co-evolved around a technology or know-how platform or a set of core products or services, owned or operated by the prospective corporate WVR beneficiary (for the avoidance of doubt, such platform or products or services does not need to represent the main business of the prospective corporate WVR beneficiary);
 - (b) the components within the ecosystem (including the listing applicant) both benefit from, and contribute to, the ecosystem by sharing certain data, users and/or technology (for example, software, applications, proprietary know-how or patents);
 - (c) the ecosystem must have attained meaningful scale, which will normally be measured by reference to indicators such as the number and technological sophistication of the components connected to the ecosystem, the size of its (combined) user base, or the frequency and extent of cross-interaction between the users or customers of different components;
 - (d) the core components within the ecosystem, and the listing applicant, are in substance controlled by the corporate WVR beneficiary; and

- (e) the growth and success of the listing applicant was materially attributable to its participation in and co-evolvement with the ecosystem; and the applicant is expected to continue to benefit materially from being part of that ecosystem.

Yes

No

Please give reasons for your views. Please elaborate if you wish to propose an alternative or additional criteria.

We broadly agree with the proposed criteria except in relation to criteria (d) which is too ambiguous for market participants to assess whether or not the ecosystem fulfils the required characteristics. For instance, it is not clear what criteria will be used in determining which component will be considered as "core component" and also what kind of control and level of control will be considered as "in substance controlled" by the corporate WVR beneficiary. We are of the view that the criteria as set out in (a) to (c) and (e) will be sufficient enough to ensure that the ecosystem is one which ensures that the interests of the listing applicant and the corporate WVR beneficiary are aligned and that material future benefits will accrue to the listing applicant as being part of the ecosystem. We invite the Exchange to consider removing condition (d) as one of the characteristics of the ecosystem.

In addition to the requirement of attaining a "meaningful scale", we suggest to add an extra criteria regarding the years of establishment of such ecosystem to ensure that it is a well-established ecosystem that has been in existence for a certain number of years. We also invite the Exchange to consider setting out more detailed guidance in determining whether or not such characteristics have been fulfilled and provides with examples or case studies of what the Exchange would consider as satisfying the characteristics of an ecosystem and those that are not.

10. Are there other circumstances relevant to innovative companies that, in your view, could either (a) justify granting WVR to a corporate WVR beneficiary; or (b) be required as a pre-requisite to being granted WVR?

Yes

No

Please give reasons for your views.

We disagree with paragraph 157 of the Consultation Paper that private equity/venture capital company cannot be corporate WVR beneficiary. There are a good number of well established private equity/venture capital companies that have a sizable number of portfolio companies that are innovative companies. Such private equity/venture capital companies do own an ecosystem that share similar characteristics as proposed in the Consultation Paper and we should not rule out the eligibility of private equity/venture capital companies from being a corporate WVR beneficiary solely because of their nature of business. Separately, there are also instances where private equity/venture capital may have contributed significantly to the development of the listing applicant beyond the initial financial investment which is more typically associated with corporate shareholders.

11. Do you agree that the corporate WVR beneficiary can be a traditional economy company provided that it develops a similar ecosystem which can satisfy the eligibility criteria?

Yes

No

Please give reasons for your views.

We agree that a corporate WVR beneficiary can be a traditional economy company. Many traditional companies have also evolved a part of their business into emerging and innovative sectors, the most commonly seen example would be financial institutions, a good number of financial institutions have certain fintech subsidiaries that have developed a similar ecosystem. In any event, in addition to the eligibility criteria of an ecosystem in place, the corporate WVR beneficiary must be either an Innovative Company or have business experience in one or more emerging and innovative sectors as well as track record of investments in and contribution to innovative companies. As long as the proposed corporate WVR beneficiary satisfies the other eligibility and suitability requirements, we do not see any reasons why traditional company should be restricted from being a corporate WVR beneficiary. This also encourages and incentivises companies from traditional economy sectors to evolve into emerging and innovative companies.

12. If your answer to 8 is “yes”, do you agree that the corporate WVR beneficiary should be required to provide a contribution to the WVR issuer (e.g. by facilitating the applicant’s participation in the ecosystem and including the applicant in its vision and planning for the ecosystem) on an ongoing basis and that its WVR should lapse if the corporate’s contribution to the WVR issuer is substantially terminated or materially disrupted or suspended for a period exceeding 12 months?

Yes

No

Please give reasons for your views.

We agree that this should be made an ongoing requirement. Once the contribution to the WVR issuer has ceased, there will potentially be some serious misalignment of interests between the corporate WVR beneficiary, the ordinary shareholders and the WVR issuer, it may be detrimental to the other ordinary shareholders for the WVR of corporate WVR beneficiary to continue to exist. We invite the Exchange to consider reserving its power to suspend the WVR held by such corporate WVR beneficiary if there is serious material disruption to such contribution even for a period not exceeding 12 months so as to safeguard the interests of minority shareholders in extreme circumstances as 12-month is a relatively long period that allows the corporate WVR beneficiary to exercise its WVR in a manner that may not serve the best interests of the company and the other ordinary shareholders.

13. Are there alternative or additional conditions or requirements that you would propose for the corporate WVR beneficiary or the WVR issuer on an ongoing basis?

Yes

No

Please give reasons for your views.

14. (a) If your answer to 0 is “yes”, do you agree that a WVR issuer’s corporate governance committee should (after making due enquiries) confirm, on a six month and annual basis, that there has been no termination or material disruption, etc., to the corporate WVR beneficiary’s contribution to the listing applicant and that this requirement be set out in the committee’s terms of reference?

Yes

No

Please give reasons for your views.

We agree that this proposed requirement will safeguard the interest of the minority shareholders and to ensure that such ongoing requirement is being satisfied on a semi-annual basis.

(b) Alternatively, would you prefer there to be a different mechanism to check that this requirement is being met?

Yes

No

If so, please state what this should be. Please give reasons for your views. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

15. Balancing the need to ring-fence corporate WVR beneficiary on a fair, rational and justifiable basis to avoid a proliferation of WVR structures, and the risk that a high market capitalisation requirement may be seen as creating an uneven playing field, the Exchange has proposed that a prospective corporate WVR beneficiary must have an expected market capitalisation of at least HK\$200 billion at the time of the WVR issuer's listing. Do you agree with the proposed minimum market capitalisation requirement of HK\$200 billion for a prospective corporate WVR beneficiary?

Yes

No

Please give reasons for your views.

There are approximately 49 companies listed on the Exchange with current market capitalisation of at least HK\$200 billion as of today's date, the majority of which are companies from traditional industries (e.g. financial institutions). Whilst we appreciate the importance of avoiding a proliferation of WVR structures, requiring a corporate WVR beneficiary to have an expected market capitalisation of at least HK\$200 billion will inevitably rule out the opportunities of many companies out there from becoming a corporate WVR beneficiary even though they may fulfil all other eligibility and suitability requirements. This will seriously undermine our competitiveness in attracting innovative companies from seeking a listing on the Exchange as this is often a key consideration as to whether or not the WVR listing applicant will be allowed to have corporate WVR beneficiaries. Setting such a high threshold on the expected market capitalisation requirement for the corporate WVR beneficiary will seriously deter listing applicants from listing on the Exchange.

16. Do you consider that any exceptions to the market capitalisation requirement should be provided?

Yes

No

If your answer to this question is “yes”, please explain the reason(s) for your view and state under what circumstances, and the factors that you consider to be relevant. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

17. Do you agree with the proposed requirement that to be suitable to benefit from WVR, a corporate WVR beneficiary must be either: (a) an Innovative Company or (b) have business experience in one or more emerging and innovative sectors as well as a track record of investments in, and contributions to, innovative companies?

Yes

No

Please give reasons for your views.

We recommend the Exchange to provide clear guidance and/or list of factors that the Exchange will take into consideration when determining whether or not a corporate WVR beneficiary has sufficient business experience in emerging and innovative sectors and whether there will be any benchmark in determining what constitutes sufficient track record of investments (for instance, the aggregate size of the investment over a course of a minimum period of time). Such guidance will enhance regulatory certainty and consistency when regulators assess suitability of corporate WVR beneficiaries.

18. Do you agree with the proposed requirement that to benefit from WVR, a corporate beneficiary must have and maintain a primary listing on the Exchange or a Qualifying Exchange?

Yes

No

Please give reasons for your views. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

We agree with the proposed requirement that the corporate WVR beneficiary must have listing status on the Exchange or a Qualifying Exchange to ensure that that it is subject to regulatory oversight, this will also limit the number of eligible corporate WVR beneficiaries and minimise floodgate concerns.

19. Do you agree with the requirement that a listing applicant must not represent more than 30% of the corporate WVR beneficiary in terms of market capitalisation at the time of its listing?

Yes

No

If not, do you prefer an alternative threshold? Please give reasons for your views. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

We agree with this proposed requirement as an additional safeguard to ensure that the listing applicant does not constitute too large a proportion of its corporate WVR shareholder, limiting the chance of the corporate WVR beneficiary "squeezing" the listing applicant to the detriment of minority shareholders. This measure also limits the number of eligible corporate WVR beneficiary candidates and minimises floodgate concerns.

20. (a) Do you agree with the proposed requirement that at least one director of the listing applicant must be a Corporate Representative?

Yes

No

Please give reasons for your views.

Given the proposed requirement as set out in this Consultation Paper, corporate WVR beneficiaries are likely to be conglomerates having various business units and a large number of subsidiaries operating across different industry sectors. In respect of the definition of "Corporate Representatives" for such conglomerate, we recommend the Exchange to allow more flexibility in the choice of Corporate Representatives and invite the Exchange to consider clarifying whether senior management such as a director, manager or secretary or any other key person involved in the management of a business line or subsidiary of the Corporate WVR beneficiary would also qualify as "Corporate Representatives". If the definition of "Corporate Representatives" is narrowly defined to mean only the directors, managers or secretary, or other key person involved in the management of the corporate WVR beneficiary, it may not be feasible to require a member of the management from such senior level to serve as a director of WVR issuer, and such member may not necessarily be the most suitable person with the relevant expertise to serve on the board of the WVR issuer.

- (b) Are there any alternative or additional measures that you would propose to increase a corporate WVR beneficiary's responsibility and accountability for how it exercises its control?

Yes

No

Please give reasons for your views.

21. Do you agree that the WVR attached to a corporate WVR beneficiary's shares must lapse permanently if:

(a) the beneficiary no longer has a Corporate Representative on the listed issuer's board of directors for a continuous period of 30 days;

(b) the Corporate Representative is disqualified as a director or found unsuitable by the Exchange as a result of an action or decision taken in his or her capacity as director of the listed issuer save where the corporate WVR beneficiary is able to demonstrate to the Exchange's satisfaction that the action or decision was taken outside of the authority granted by the corporate WVR beneficiary to the Corporate Representative; or

(c) the corporate WVR beneficiary has been convicted of an offence involving a finding that the beneficiary acted fraudulently or dishonestly?

Yes

No

If not do you suggest any alternative criteria? Please give reasons for your views. In your response, you may propose additional or alternative measures to the ones discussed in the Consultation Paper.

We agree with the proposed measures as these are largely similar to the circumstances where the WVR of an individual WVR beneficiary will lapse.

22. Do you agree that the Exchange should impose a time-defined sunset on the WVR of a corporate WVR beneficiary?

Yes

No

Please give reasons for your views.

Whilst there are benefits for granting WVR to a corporate WVR beneficiary at the beginning of listing as it encourages the corporate WVR beneficiary to include the listing applicant in its ecosystem and to grow together with the listing applicant in the ecosystem, but eventually at some point, the benefits that a corporate WVR beneficiary can bring to the issuer will deteriorate over time. However, we believe the event-based sunset provisions as set out in the Consultation Paper provides sufficient safeguard as the WVRs will lapse under certain circumstances, such as when the corporate WVR beneficiary ceases to be listed on the Exchange or Qualifying Exchange and also when the corporate's intangible contribution to the WVR issuer is substantially terminated or materially disrupted or suspended for a period exceeding 12 months. One needs to draw the distinction between an individual who is limited to his/her lifespan whereas a corporate does not have a lifespan, therefore, we are of the view that event-based sunset provisions will be more appropriate for corporate WVR beneficiaries.

23. If your answer to 0 is "yes", do you agree with the proposed maximum 10 year length of the initial "sunset period"?

Yes

No

If not, what length of period would you prefer? Please give reasons for your views.

Please refer to our answers to Question 22. If the proposal as set out in our response to Question 22 is not accepted, we invite the Exchange to consider imposing a maximum of 20 years as the sunset period. We are of the view that 20 years is a more practicable time frame for the independent shareholders to determine at the end of the initial "sunset period" whether or not the WVR of a corporate WVR beneficiary can be renewed. It typically takes relatively longer at the initial phase of listing for the corporate WVR beneficiary to execute its strategies and vision and to demonstrate the intangible contribution that it could bring to the WVR issuer as the WVR issuer may still be at an earlier stage of its life cycle upon listing and hence a longer initial timeframe will be required in order for the independent shareholders to make a well-informed assessment as to whether or not to renew at the end of such initial sunset period. In assessing its investment decisions, the length of the sunset period will be taken into account in determining the level of economic interest that a potential corporate WVR beneficiary may commit as the WVR attached to the corporate WVR beneficiary's shares may lapse if the independent shareholders do not approve such renewal and there is no way for the corporate WVR beneficiary to guarantee that it will obtain such approval. This ties in with our response to Question 3, if the Exchange accepts our proposal that a corporate WVR beneficiary is required to be either the single largest shareholder or to hold at least 30% of economic interest, a sunset period of 10 years may be acceptable in that case as investors may be more willing to take on the risk that the WVR attached to such shares may lapse at the end of the sunset period without committing to at least 30% of economic interest.

24. (a) Do you agree that the WVR of a corporate WVR beneficiary could be renewed at the end of the sunset period with the approval of independent shareholders?

Yes

No

Please give reasons for your views.

Please refer to our answers to Question 22. If the Exchange adopts a time-defined sunset period, we agree with renewing at the end of the sunset period with the approval of independent shareholders as this motivates and encourages a corporate WVR beneficiary to include the WVR issuer in its ecosystem which benefits both the WVR issuer as well as all its shareholders.

- (b) If so, do you agree with the maximum five year length of the renewal period or would you prefer an alternative renewal period length?

Yes

No

Please give reasons for your views.

Please refer to our answers to Question 22. If the Exchange adopts a time-defined sunset period, we agree with the proposed maximum five year length of renewal period but there should be flexibility for the WVR of the corporate WVR beneficiary to be renewed for a shorter renewal period at the discretion of the WVR issuer when it proposes to the independent shareholders for their approval of such renewal. The most appropriate length of renewal period varies from company to company and depends on the facts and circumstances of each company, there should be a certain degree of flexibility in determining the renewal period of the corporate WVR beneficiary. After the initial 10-year period, the WVR issuer will be at a more mature stage of its life cycle and a renewal period of five years will provide sufficient time for the corporate WVR beneficiary.

25. Do you agree that there should be no limit on the number of times that the WVR of a corporate WVR beneficiary could be renewed?

Yes

No

If not, what is the limit that you would propose? Please give reasons for your views.

We agree. If the independent shareholders approve the renewal of sunset period, we do not see any reasons why we should impose a limit on the number of times of renewal.

26. Should the Exchange impose any other requirements on a corporate WVR beneficiary as of a condition of renewing its WVR?

Yes

No

If so, please provide details of the suggested requirement. Please give reasons for your views. In your response, you may propose additional or alternative measure to the ones discussed in the Consultation Paper.

To ensure the continuous suitability of the corporate WVR beneficiary, we invite the Exchange to consider whether or not it would be appropriate to reassess the corporate WVR beneficiary's intangible contribution to the WVR issuer via its ecosystem as a condition of renewing its WVR. Although the WVR attached to a corporate WVR beneficiary's shares will lapse permanently if the corporate's intangible contribution to the WVR issuer is substantially terminated or materially disrupted or suspended for a period exceeding 12 months, it is possible that at the point of renewal, such intangible contribution has substantially terminated or materially disrupted or suspended for a period less than 12 months and hence the WVR attached to corporate WVR beneficiary's shares still exist. However, in such circumstances, it may not be an appropriate time to renew its WVR. The reassessment of the corporate WVR beneficiary's intangible contribution as a condition of renewing its WVR will provide additional safeguard to the shareholders of the WVR issuer. This will help to ensure that only those who have continued to contribute to the continuous success of the WVR issuer will be entitled to benefit from the WVR.

27. Do you agree that the Exchange should not restrict an issuer from granting WVR to both corporate and individual beneficiaries provided that each meets the requisite suitability requirement?

Yes

No

Please give reasons for your views.

The success of a WVR issuer may well be a combination of efforts and contribution from visionary individual founder and a corporate in its ecosystem, the two should not be made mutually exclusive as this may potentially hinder the development and strategic direction of the WVR issuer.

28. Are there any additional measures that you would propose for the WVR beneficiaries or the WVR issuer to safeguard the interests of the WVR issuer (e.g. prevent a deadlock) if there were both corporate and individual beneficiaries?

Yes

No

Please give reasons for your views.

29. Do you agree that where an issuer has both a corporate WVR beneficiary and individual WVR beneficiaries, the time-defined sunset should only apply to the corporate WVR beneficiary?

Yes

No

Please give reasons for your views.

Please refer to our response to Question 22. If the Exchange adopts the time-defined sunset for corporate WVR beneficiary, we agree that the sunset clause to be applicable to an individual WVR beneficiary should be subject to a natural sunset clause instead of a time-defined one. The effect of the current natural sunset clause applicable to individual WVR beneficiary is to ensure that only those who have ongoing responsibilities for the issuer's performance can benefit from WVR. As an individual is a natural person, it will make sense for the sunset to naturally fall away over time.

30. Do you agree that, in the event that the WVR of the corporate WVR beneficiary falls away as a result of its time-defined sunset, the individual beneficiary should be required to convert part of his or her WVR shares into ordinary shares such that the individual beneficiary will control the same proportion of voting power in the issuer both before and after the corporate WVR beneficiary's WVR fall away?

Yes

No

Please give reasons for your views. In your response, you may propose additional or alternative measure to the ones discussed in the Consultation Paper.

We agree that to ensure that the independent shareholders can make a genuine and independent decision as to whether or not to renew the WVR of a corporate WVR beneficiary, the WVR shares of individual WVR beneficiaries should be converted to ordinary shares as proposed. This avoids the scenario whereby the independent shareholders' voting considerations are influenced by desires to avoid increase of the voting power of individual WVR beneficiaries. Such decision to renew WVR of corporate WVR beneficiary shall be solely based on its contribution to the growth and success of the WVR issuer and not to avoid the increase in voting power of another WVR beneficiary.

31. Do you agree that the Listing Rules need not mandate that, if an individual beneficiary's WVR falls away before a corporate WVR beneficiary's WVR, the corporate WVR beneficiary should convert part of its WVR shares into ordinary shares such that the corporate WVR beneficiary will control the same proportion of voting power in the issuer both before and after the individual beneficiary's WVR fall away?

Yes

No

Please give reasons for your views. In your response, you may propose additional or alternative measure to the ones discussed in the Consultation Paper.

We agree with the Exchange's proposal not to require a corporate WVR beneficiary's WVR shares be converted as a result of the triggering of an individual WVR beneficiary's sunset event. The Consultation Paper has already highlighted the differences in nature between a corporate and an individual and how this has led to differences in the nature of the sunset clauses (time-based versus event-based). An individual WVR beneficiary's sunset event (for example, an unnatural early demise) can happen at any time. It would pose significant difficulties for a corporate WVR beneficiary to make appropriate planning for its investments were its voting power be subject to such vagaries. Given the requirement that corporate WVR beneficiaries be publicly listed, this would also impose uncertainty on the investments of the corporate WVR beneficiary's minority shareholders. Moreover, given the time limitations applied to the corporate WVR beneficiary's voting power, there would be an opportunity for the independent shareholders of the WVR issuer to assess whether or not it will be beneficial to the WVR issuer and its shareholders for such corporate WVR beneficiary to continue to exercise its voting power. Moreover, we note that clarifications may need to be made to the Takeovers Code that the mandatory general offer requirements should not be considered to be triggered in such circumstances whereby the conversion of an individual WVR beneficiary's WVR shares to ordinary shares would cause a corporate WVR beneficiary's voting power crosses the 30% threshold.

- End -