

Submitted via Qualtrics

Company/Organisation view

Question 1

Do you agree with the proposal to amend Chapter 17 to also govern share award schemes involving the grant of new shares of listed issuers?

Yes

Please provide reasons for your views.

We agree with the proposal to amend Chapter 17 to govern share award schemes involving the grant of new shares of listed issuers in order to provide a consistent regulatory framework. To provide clarity to listed issuers with existing share award schemes, we suggest that specific guidance should be provided as to whether or not existing share award schemes will be subject to shareholders' approval requirement. If the listed issuer is not required to seek shareholders' approval for existing share award schemes, please clarify whether or not any amendment (or perhaps only material amendments) to existing share award scheme which is valid as at the effective date of the rule amendments requires shareholders' approval.

While we understand that the listed issuer may continue to grant share awards under existing share award schemes under the amended Chapter 17 up to the date of the first annual general meeting after the effective date, we would like to seek clarity whether or not the amended Chapter 17 will have any implications on grants which have been made under the existing share award schemes prior to the effective date. We are of the view that any changes to the rules should not have retrospective impact on the terms of share awards which have already been granted.

Separately, we urge the Exchange to consider granting a grace period of at least three years for listed issuers to amend their existing share award schemes in order to ensure that such existing schemes will fully comply with the amended Chapter 17. The proposed amendments are quite substantial and will have significant impact to conglomerates which have a large number of subsidiaries (if the Exchange implements proposal P in its entirety) with share award schemes. It is noted that a grace period of three years is commonly adopted by the Exchange in relation to transitions and waiver grants.

We also note that Chapter 17 is primarily to regulate share option schemes which had a dilutive effect on an issuer's issued share capital, as stated in paragraph 26 of your consultation paper. We agree that share award schemes which utilize newly issued shares and which have the same dilutive effect should be similarly regulated. However, we query whether share award schemes of an issuer or its subsidiaries which do not involve new shares should be governed by Chapter 17 given that there is no dilutive impact on the shareholders of the listed issuer.

Question 2

Do you agree with the proposed definition of eligible participants to include directors and employees of the issuer and its subsidiaries (including persons who are granted shares or options under the scheme as an inducement to enter into employment contracts with these companies)?

Yes

Please provide reasons for your views.

We agree with defining the term "eligible participants" in Chapter 17 in order to provide clarity particularly to investors on the categories of persons who are allowed to participate in the scheme. This should be on the basis that those classes of persons who have or are expected to contribute to the success of the issuer and/or its subsidiaries should be eligible. On this basis, we suggest the Exchange to consider expanding the proposed definition of "eligible participants" to include past employees as well as existing employees in order to enable the listed issuer to recognise their contribution to the company. In view of the recent trend of companies hiring part time employees and consultants in light of the pandemic, and also the increasing needs to allow for diverse forms of employment (particularly for companies in emerging industries), the Exchange should also consider expanding the definition of eligible participants to include part time employees and consultants. We also suggest including the flexibility for share awards and options to be granted to corporate vehicles held by eligible participants, to facilitate their personal tax and financial planning, including but not limited to trust and limited partnership. See also response to question 24.

Question 3

Do you agree with the proposal that eligible participants shall include Service Providers, subject to additional disclosure and approval by the remuneration committee?

No

Please provide reasons for your views.

We agree with the proposal that eligible participants shall include Service Providers. It has been observed that U.S. listed issuers within the emerging industries utilise share incentive instruments as a way to pay their professional advisers.

However, we disagree with the proposal that the responsibility and determination of persons who fall under "Services Providers" should lie with the remuneration committee. The majority of members of the remuneration committee are independent non-executive directors, who are not involved in the day-to-day operations of the issuer, and therefore the proposed additional responsibilities for remuneration committee is against the nature and identity of the remuneration committee. Arguably, the executive directors may have a better and more thorough understanding on the nature, scope of work and whether or not they have provided services which are material to the long-term growth of the issuer group as they are involved in the day to day running of the listed issuer. In practice, we understand that the engagement of professional advisers are undertaken by management

instead, e.g. the CFO may decide on the selection of the financial advisers and the general counsel may decide on engagement of counsel. Depending on the approval structure of a particular issuer, the executive director(s) or board may confirm such appointments (although this is less likely for a large conglomerate, particularly for ones with numerous subsidiaries). Further, we also disagree with the requirement under the proposed rule 17.03A(3) that grant of options or awards to Service Providers must be approved by the remuneration committee as it may be administratively burdensome to seek approval from the remuneration committee for each and single grant to Service Providers, for example, the remuneration committee would need to be fully informed about the background, their contribution and how "material" their contribution is to the long term growth, the basis of grant and how the grant serves the purposes of the scheme, and be given the opportunity to raise queries and objection as to each grant, which is too inefficient from the perspective of the day-to-day management of the issuer and its subsidiaries.

Question 4

Do you agree with the proposal that eligible participants shall include Related Entity Participants, subject to additional disclosure and approval by the remuneration committee?

No

Please provide reasons for your views.

We agree with the proposal that eligible participants shall include Related Entity Participants. It is particularly important for new economy companies such as companies in the innovative sectors or biotech sectors to have the flexibility to make share grants to Related Entity Participants, as such companies may have relied on related entities which are part of the ecosystem and that these related entities may have contributed to the success of the listed issuer via its ecosystem, strategic guidance and synergistic benefits that they bring.

However, we disagree with the proposal that share grants to Related Entity Participants shall be approved by the remuneration committee for the same reasons as provided in our answers to question 3.

Question 5

Do you agree with the proposal to allow the scheme mandate to be refreshed once every three years by obtaining shareholders' approval?

Yes

Please provide reasons for your views.

We agree with the proposal to allow the scheme mandate to be refreshed once every three years by obtaining shareholders' approval in order to limit the effect of shareholders' dilution, provided that such requirement will not be applicable to share schemes of subsidiaries.

In respect of the proposed 10% Scheme Mandate Limit, we recommend the Exchange to consider setting a separate mandate limit higher than 10% Scheme Mandate Limit for subsidiaries of the listed issuer, particularly in the case of Insignificant Subsidiaries where the dilution effect from a valuation perspective on the listed issuer and its shareholders should be very limited.

Further, according to the Initial Public Offering (IPO) Compensation Report - Analysis of Compensation Arrangements Among Companies with Recent IPOs 2021 published by Alvarez & Marsal, where they have analysed 272 companies that are diverse in terms of size and markets, the average pre-IPO equity share pool authorisation as a percentage of total shares outstanding was approximately 12.6%, and the 75th percentile authorization was 16.22%. Therefore, we urge the Exchange to consider setting a higher scheme mandate limit as 10% is lower than the average size.

In addition, we note that the Exchange considers that waivers may be granted from the Scheme Mandate Limit in paragraph 46 of the Consultation Paper, taking into account factors such as necessity of the proposed mandate, the industry norms and criteria for granting shares under the mandate. We recommend the Exchange to consider providing further guidance on the list of factors that it will consider in granting such waivers and the conditions that the listed issuer will be subject to in order for such waiver to be granted.

We would like to seek clarification for how the new rules (including the transitional arrangements) would impact the existing share award schemes of subsidiaries (including those that have exceeded the proposed scheme mandate limit). Our understanding is that the subsidiary can continue to grant awards under such existing schemes, as long as issuers comply with the new disclosure requirements from the effective date (e.g. announcement of grants, disclosure in interim/annual reports) as set out under paragraph 11(a) of the Consultation Paper. Given that these existing schemes would not be subject to refreshment of mandates, the subsidiaries would be able to continue to issue up to the pre-existing scheme limits, even if this is greater than the proposed scheme mandate limit.

The rules are clear as to the impact on the scheme limit for options or awards which are either lapsed or cancelled. We would also like to seek clarification on other situations where options or awards are not ultimately exercised or vested, such as where they are surrendered (and in the case of options, without having been exercised) upon an employee terminating his/her employment with the issuer, or where certain awards or options are set off against tax obligations. We would suggest that where these do not ultimately have a dilutive effect, they should be allowed to be “recycled” and count towards the scheme limit, which would be consistent with the practice in the US.

Question 6

Do you agree with the proposal to allow the scheme mandate to be refreshed within three years from the date of the last shareholders' approval by obtaining independent shareholders' approval?

Yes

Please provide reasons for your views.

We agree that refreshment of scheme mandate within three years from the date of last shareholders' approval shall be subject to independent shareholders' approval (provided that such requirement will not be applicable to share schemes of subsidiaries) in order to provide additional safeguard to ensure that minority shareholders are given an opportunity to veto such refreshment to prevent further dilution of their interests at the issuer level.

Question 7

Do you agree with the proposal to remove the 30% limit on outstanding options?

Yes

Please provide reasons for your views.

We agree that the 30% limit on outstanding options has little or no practical effect given the proposed 10% Scheme Mandate Limit.

Question 8

Do you agree with the proposal to require a sublimit on Share Grants to Service Providers?

Yes

Please provide reasons for your views.

We agree with the requirement to set a sublimit on Share Grants to Service Providers in order to act as an additional safeguard against excessive dilution.

Question 9

Do you agree with the proposal to require a minimum of 12-month vesting period?

No

Please provide reasons for your views.

We disagree with the proposal of imposing a minimum of 12-month vesting period. Due to the competitive nature of the industries in which many of the issuers which most utilise share incentive instruments operate in (e.g. the tech or healthcare industries), this proposal will make it difficult to attract and retain talent and industry experts comparing to competitors which are listed on other stock exchanges where there is no such minimum vesting period requirement e.g. US (in particular, many US listed companies allow for shares to be vested immediately and then on a quarterly basis, or monthly basis). As talent and its people are one of the key determining factors of the success of issuers, we

recommend the Exchange to consider to give listed issuer the discretion to determine whether or not a minimum vesting period is required by taking into account of its industry, competitiveness and its business needs. Immediate vesting also helps the issuer as it means that even in the first year, the issuer can structure compensation packages as partly paid by cash and partly met by share awards, thereby reducing the cash demands on the issuer.

If the Exchange does decide to implement this proposal, we recommend the Exchange to consider defining the 12-month vesting period in order to clarify whether or not the 12-month vesting period refers to (i) no vesting at all with the grantee for 12 months from the date of grant; or (ii) whether all share grants shall not be fully vested with the grantee in the first 12 months after the date of grant.

Question 10

Do you agree with the proposal that Share Grants to Employee Participants specifically identified by the issuer may vest within a shorter period or immediately if they are approved by the remuneration committee with the reasons and details disclosed?

No

Please provide reasons for your views.

As discussed above, we are of the view that Share Grants to Employee Participants may vest immediately or within a shorter period. However, we disagree that it should be approved by the remuneration committee for the same reasons as provided in our answers to question 3, we are of the view that the executive directors / management will be better placed to approve such vesting. It is practically impossible for the remuneration committee to approve every Share Grant to Employee Participants which may vest within a shorter period. The amended note to rule 17.03(6) is drafted very broadly without reference to the reasons that would be considered as appropriate in order for the Share Grants to vest immediately or a period that is shorter than 12 months. In order to provide for certainty and clarity as to the application of this rule, we invite the Exchange to consider publishing guidance materials on this point. In addition, we disagree that the category of participants, the quantity of the Share Grants, the approved vesting period and the reasons should be disclosed as such details are generally commercially sensitive and do not provide much value to investors. Investors should be more concerned about the actual dilutive effect any vesting may have on the issued share capital of the issuer which can be observed from the number of new shares issued pursuant to share schemes as disclosed in the monthly returns.

Question 11a

Do you agree with the proposed disclosure requirements relating to performance targets?

No

Please provide reasons for your views.

We are neutral with regards to the proposed disclosure requirements relating to performance targets. We note that any such disclosure should only be on a relatively high level and in a generic manner as more detailed disclosure may risk revealing commercially sensitive information around the issuer's own internal forecasts or expectations. Such detailed information may also lead to poaching concerns from competitors if key employees' compensation packages are disclosed in too much detail in the public domain. The Exchange has referenced various details to be disclosed but it is noted that international market practices may not cover such items. We do concede that disclosure which is too generic may not be of too much value to investors. There therefore needs to be a balance between the concerns stated above against the benefits of disclosure. This may be a matter which ultimately is best left to issuers' discretion, without needing overly prescriptive regulation.

Moreover, in practice it is not that easy to set performance targets. For example, the performance of certain function group may not be directly linked to any performance target, as it is often the case that only the front-line employees have specific performance target but not the ones with supporting functions who may have also made significant contribution to the long-term growth of the company, it may not be possible for grant to such employees to be linked to performance target. Consideration has to be given to the specific industry group of the issuer. It may not be practical for new economy companies and innovative companies to set performance targets, for instance, research and developing new technologies will often take a substantial period of time to reach a stage that will have an impact on the company's performance. Therefore, the requirement to explain why grants are made without performance targets may also not be appropriate considering this. By nature of equity awards, the grantees are already incentivised to improve the performance of the company and therefore increase in the issuer's stock price which is in alignment with the issuer's investors.

Should the Exchange believe that disclosure requirements are justified, we would also ask for clarification as to whether the performance targets are to be based on the performance of the individual and/or the company. We also note that certain TMT companies listed in the US also adopt an accelerated vesting schedule, such that if employees meet performance targets, they can have their awards vested on an accelerated basis (e.g. 40% vesting instead of an original 25% vesting). We would assume that this type of arrangement would be possible under any new rules to be implemented.

Question 11b

Do you agree with the proposed disclosure requirements relating to clawback mechanism?

No

Please provide reasons for your views.

We agree with the disclosure requirement relating to clawback only in circumstances where there is clawback mechanism in place. However, we disagree with the proposal that when Share Grants are made without clawback mechanism, the grant announcement and circular must contain remuneration committee's views on why clawback mechanism is not necessary and how the grants serve the purpose of the scheme. Such proposal appears to suggest that having clawback mechanism is a mandatory requirement which may not be appropriate in certain circumstances, for example, this is particularly burdensome and complicated for companies incorporated in the PRC (e.g. listed issuer with a lot of PRC subsidiaries). A clawback mechanism would involve complicated tax implications and onerous procedures with PRC administration in relation to repurchase/cancellation of shares. We do not agree that the proposed disclosure regarding clawback mechanism is in line with international market practices on the disclosure of executive compensation and remuneration policies, as disclosure regarding clawback mechanism is a completely different matter from disclosure regarding executive compensation and remuneration package.

Question 12

Do you agree that it is not necessary to impose a restriction on the grant price of shares under share award schemes?

Yes

Please provide reasons for your views.

We agree that there should not be any restriction on the grant price of shares under share award scheme as this is consistent with market practices as share awards are usually granted at nil consideration. If a restriction is imposed on the minimum grant price of shares under share scheme, it may defeat the underlying purpose of share award scheme to incentivise the grantees to contribute to the long-term growth of the issuer and be able to gain the benefit of the upside of the growth of the issuer, particularly for companies in the innovative and emerging industries.

Question 13

Do you agree with the proposal to apply the 1% Individual Limit to Share Grants (including grants of shares awards and share options) to an individual participant?

No

Please provide reasons for your views.

We disagree with the proposed 1% Individual Limit (including grant of share awards and share options) to an individual participant as the proposed limit is unduly restrictive (which covers both share awards and share options), particularly in the case of emerging companies or early stage companies (bearing in mind that the rules also apply to subsidiaries of listed companies) where the founding members are often granted a decent amount of share awards in order to incentivise them to continue to contribute to the company. A way to deal with this might be to disapply these rules to insignificant subsidiaries as the considerations relating to a sizeable listed company are very different from that of a startup subsidiary.

Question 14

Do you agree with the proposal to require approval from the remuneration committee instead of INEDs for all Share Grants to Connected Persons?

Yes

Please provide reasons for your views.

We note that there is a discrepancy between the drafting of new rule 17.04 and question 14. The new rule 17.04 references “a director, chief executive or substantial shareholder of a ****listed issuer****, or any of their respective associates”, whilst question 14 references Connected Persons in general (which would include connected persons of subsidiaries, other than insignificant subsidiaries). We would agree with the proposal to require approval from the remuneration committee for all Share Grants to Connected Persons ****at issuer level only**** instead of INEDs as Share Grants to such Connected Persons form part and parcel of the relevant Connected Persons' remuneration package of that relevant such Connected Persons. This proposal is in line with the provisions in the Corporate Governance Code that remuneration committee is to be held accountable to shareholders for the listed issuer's policy on remuneration of directors and senior management. However, we believe that remuneration committee's approval for share grants at subsidiary level is too burdensome for the reasons stated elsewhere.

Question 15

Do you agree with the proposal to relax the current shareholder approval requirement for grants of share awards to a director (who is not an INED) or a chief executive set out in paragraph 65 of the Consultation Paper?

Yes

Please provide reasons for your views.

We agree with the proposed de minimis exemption for grants of new share awards to a director (who is not an INED) or chief executive, as the limit of 0.1% of issued share in any 12-month period will have very minimal dilutive impact to shareholders. This will provide listed issuer with flexibility to provide for attractive and competitive compensation package without unduly burdensome procedures of seeking shareholders' approval for grants of share awards that will not have dilutive impact to shareholders.

We would like to seek for clarification that the shareholders' approval requirement under the proposed rule 17.04(2) for any grant of awards to a director (other than an INED) or chief executive in excess of 0.1% over the 12-month period up to and including the date of grant is only applicable to directors (other than INED) or chief executive of the listed issuer, and not its subsidiaries, as such stringent restrictions would hinder the development of early stage companies, where it is the industry norm for founders (also being large shareholders or directors) to receive a larger amount of share awards as incentives.

Question 16

Do you agree with the proposal to also relax the current shareholder approval requirement for grants of share awards to an INED or substantial shareholder of the issuer set out in paragraph 68 of the Consultation Paper?

Yes

Please provide reasons for your views.

We agree with the proposal to relax the current shareholder approval requirement for grants of share awards or share options to INED or substantial shareholder of the listed issuer where the grant to that person in the 12-month period up to and including the date of grant does not exceed 0.1% of the issued shares. This will provide listed issuer with flexibility to offer attractive and competitive compensation package without unduly burdensome procedures of seeking shareholders' approval for grants of share awards that will not have dilutive impact to shareholders.

Question 17

Do you agree with the proposal to relax the current shareholder approval requirement for grants of share awards to a controlling shareholder of the issuer set out in paragraph 69 of the Consultation Paper?

Yes

Please provide reasons for your views.

We agree with the proposal to relax the current shareholder approval requirement for grant of share awards to a controlling shareholder such that they will be subject to the same requirements as applicable to substantial shareholders.

Question 18

Do you agree with the proposal to remove the HK\$5 million de minimis threshold for grants of options to an INED or substantial shareholder of the issuer?

Yes

Please provide reasons for your views.

We agree with the proposal to remove the HK\$5 million de minimis threshold for grants of options to INED or substantial shareholder, as an absolute amount of threshold does not provide a meaningful indicator as to the extent and degree of dilutive impact to the shareholders.

Question 19

Do you agree with the proposals to require disclosure of Share Grants to Related Entity Participants or Service Providers on an individual basis if the grants to an individual Related Entity Participant or Service Provider exceed 0.1% of the issuer's issued shares over any 12-month period?

Yes

Please provide reasons for your views.

We agree with the proposals to require disclosure of Share Grants to Related Entity Participants or Service Providers on an individual basis if the grants to an individual Related Entity Participant or Service Provider exceed 0.1% of the issuer's issued shares over 12-month period. This strikes the balance between protecting interests of shareholders against dilution and the interests of the listed issuer in retaining certain degree of flexibility with its hiring practices, organisational structure and in offering incentives to those who have made contribution to the long-term growth of the issuer.

Question 20

Do you agree with the proposed disclosure requirement for the grant announcement?

No

Please provide reasons for your views.

We disagree with the requirement that disclosure needs to be made as to the remuneration committee's views on why it is appropriate to approve the grant of options or awards to Service Provider for the reasons as provided in our answers to questions 3 and 11a above.

We note in paragraph 78 of the Consultation Paper that there may be circumstances where waivers may be granted with reference to the general principles as set out in the Waiver Guide if the issuers have concerns about commercial sensitivity or data privacy in individual cases. We recommend the Exchange to provide further guidance regarding such waiver, including examples of circumstances and list of factors that it will take into consideration in assessing whether or not a waiver should be granted.

Question 21

Do you agree with the proposed disclosure requirements for Share Grants in an issuer's interim reports and annual reports?

No

Please provide reasons for your views.

We disagree with the proposed disclosure requirements for Share Grants in interim reports and annual reports of issuers as these are critical information as the proposed disclosure requirement is redundant and too burdensome. We believe that the existing disclosure requirements on an aggregate basis and focusing on the potential aggregate dilution impact provide shareholders with sufficient information in order to make an informed assessment. A balance has to be struck between disclosure requirements that are not unduly burdensome for issuers and providing shareholders with sufficient information with regard to dilutive impact of the Share Grants. In particular, for large conglomerates with a large number of subsidiaries, detailed disclosure of each scheme for each subsidiary will be burdensome without providing investors with meaningful information.

We also note that the US listed issuers are subject to less stringent disclosure requirements when compared to the new proposed rules. Please find below a comparison of disclosure requirements for issuers listed in Hong Kong and the US.

(1) General

(a) Proposed Requirements under the Consultation Paper

Disclosure of following information by category of participants:

- Details of Share Grants (e.g. description of grantees, date of grant, number of options/ awards granted, vesting period, narrative description of the performance target, clawback mechanism)
- Movement of share awards and options granted during the reporting period
- Fair value of share awards and options at the time of grant and the accounting policy adopted
- Number of share awards and options granted divided by the weighted average number of issued shares for the reporting period

(b) US Disclosure Requirements in Form 20-F(For FPIs only)

- Describe arrangement for involving employees in the capital of the company, including any arrangement that involves the issue or grant of options or shares or securities of the company. See Annex 1 (*) below for a sample disclosure of such an arrangement.
- As part of the requirement to disclose compensation of directors and certain administrative, supervisory and managerial bodies in an issuer, disclose the following information for the last full financial year for the company's directors and members of its administrative, supervisory and management bodies.
 - o Amount of compensation paid, and benefits in kind, to such persons by the company and its subsidiaries for services in all capacities to the company and its subsidiaries
 - o Disclosure of compensation is required on an individual basis unless individual disclosure is not required in the company's home country and is not otherwise publicly disclosed by the company
- As part of the requirement to disclose compensation of directors and certain administrative, supervisory and managerial bodies in an issuer, disclose the The person to whom any capital of any member of the group is under option or agreed conditionally or unconditionally to be put under option, including the title and amount of securities covered by the options; the exercise price; the purchase price, if any; and the expiration of the options, or an appropriate negative statement
- ESOPs are required to be filed with the SEC

(2) Grants to any participant in excess of the 1% Individual Limit

(a) Proposed Requirements under the Consultation Paper

Disclosure of information in item (1) above on an individual basis

(b) US Disclosure Requirements in Form 20-F(For FPIs only)

N/A

(3) Grants to Connected Persons

(a) Proposed Requirements under the Consultation Paper

- Disclosure of information in item (1) above on an individual basis
- The reason for the grant
- The remuneration committee's views on why it is appropriate to approve the grant, the factors that it took into account and how the grant serves the scheme purpose

(b) US Disclosure Requirements in Form 20-F(For FPIs only)

- Disclosure of compensation includes disclosure of any portion of the compensation of directors that was paid in the form of stock options with the title and amount of securities called for by the options, exercise price, the purchase price, if any, and the expiration date of the options

(4) Grants to Service Providers

(a) Proposed Requirements under the Consultation Paper

Disclosure of information in item (1) above on an individual basis if Share Grants to a Service Provider exceed 0.1% of issued shares over any 12- month period

- The reasons for the grant, the nature of services provided and the duration of the relevant service contract
- The remuneration committee's views on why it is appropriate to approve the grant, the factors that it took into account and how the grant serves the scheme purpose
- The remuneration committee's confirmation that the service provider provided services on a continuing and recurring basis in its ordinary and usual course of businesses during the period which are material to the long term growth of the issuer group

(b) US Disclosure Requirements in Form 20-F(For FPIs only)

N/A

(5) Grants to Related Entity Participants

(a) Proposed Requirements under the Consultation Paper

Disclosure of information in item (1) above on an individual basis if Share Grants to a Related Entity Participant exceed 0.1% of issued shares over any 12-month period

- The reason for the grant
- The remuneration committee's views on why it is appropriate to approve the grant, the factors that it took into account and how the grant serves the scheme

(b) US Disclosure Requirements in Form 20-F(For FPIs only)

N/A

(6) Grants to Employee Participants with a vesting period less than 12 months

(a) Proposed Requirements under the Consultation Paper

Disclosure of information in item (1) above by category of participants

- The reason for adopting a shorter vesting period
- The remuneration committee's views on why a shorter vesting period is appropriate and how the grant serves the scheme

(b) US Disclosure Requirements in Form 20-F(For FPIs only)

No additional disclosure requirements other than specified in (1) above.

(7) Grants to participants without performance targets and/or clawback mechanism

(a) Proposed Requirements under the Consultation Paper

Disclosure of information in item (1) above by category of participants

- The remuneration committee's views on why performance targets and/or clawback mechanism is/are not necessary and how the grant serves the scheme

(b) US Disclosure Requirements in Form 20-F(For FPIs only)

N/A

* Annex 1 (Sample U.S. Disclosure of Equity Incentive Plan, further to item (1) above)

Equity Incentive Plans

Our equity incentive plans provide for the granting of share-based awards to eligible grantees. Share-based awards granted are generally subject to a four-year vesting schedule as determined by the administrator of the respective plans. Depending on the nature and the purpose of the grant, share-based awards in general vest 25% or 50% upon the first or second anniversary of the vesting commencement date, respectively, as provided in the award agreements, and 25% every year thereafter. Share-based awards granted to our senior management members are generally subject to a vesting period of up to [] years. We believe share-based awards are vital to attract, motivate and retain the grantees, and are the appropriate tool to align their interests with our shareholders. Accordingly, we will continue to grant share-based awards to the employees, consultants and directors of our company, our affiliates and/or certain other companies as an important part of their compensation packages.

In addition, our award agreements generally provide that, in the event of a grantee's termination for cause (including any commission of an act of fraud, dishonesty or ethical breach) or violation of a non-competition undertaking, we will have the right to terminate grants, forfeit and cancel shares or, if applicable, repurchase the shares acquired by the grantee, generally at the original purchase price or the exercise price paid for the shares.

As of [], under the Post-IPO Equity Incentive Plan, or the Plan, there were:

- [] ordinary shares (equivalent to [] ADSs) issuable upon vesting of outstanding RSUs;
- [] ordinary shares (equivalent to [] ADSs) issuable upon exercise of outstanding options; and
- [] ordinary shares (equivalent to [] ADSs) authorized for issuance under the Plan.

The following paragraphs summarize other key terms of our equity incentive plans:

Plan Administration

Subject to certain limitations, our equity incentive plans are generally administered by the compensation committee of the board (or a subcommittee thereof), or another committee of the board to which the board has delegated power to act; provided that, in the absence of any committee, our equity incentive plans will be administered by the board. Grants to any executive directors of the board must be approved by the disinterested directors of our board.

Types of Awards

The equity incentive plans provide for the granting of RSUs, incentive and non-statutory stock options, restricted shares, dividend equivalents, share appreciation rights, share payments and other rights or interests.

Award Agreements

Generally, awards granted under the equity incentive plans are evidenced by an award agreement providing for the number of ordinary shares subject to the award, and the terms and conditions of the award, which must be consistent with the relevant plan.

Eligibility

Any employee, consultant or director of our company, our affiliates or certain other companies, such as [], is eligible to receive awards under the equity incentive plans, but only employees of our company, our affiliates and/or certain other companies, such as [], are eligible to receive incentive stock options.

Term of Awards

The term of awards granted under our equity incentive plans are generally not to exceed ten years from the date of grant.

Acceleration, Waiver and Restrictions

The administrator of our equity incentive plans has sole discretion in determining the terms and conditions of any award, any vesting acceleration or waiver of forfeiture restrictions, and any restrictions regarding any award or the ordinary shares relating thereto.

Change in Control

If a change in control of our company occurs, the plan administrator may, in its sole discretion:

- accelerate the vesting, in whole or in part, of any award;
- purchase any award for an amount of cash or ordinary shares of our company equal to the value that could have been attained upon the exercise of the award or the realization of the plan participant's rights had the award been currently exercisable or payable or fully vested; or
- provide for the assumption, conversion or replacement of any award by the successor corporation, or a parent or subsidiary of the successor corporation, with other rights or property selected by the plan administrator in its sole discretion, or the assumption or substitution of the award by the successor or surviving corporation, or a parent or subsidiary of the surviving or successor corporation, with appropriate adjustments as to the number and kind of shares and prices as the plan administrator deems, in its sole discretion, reasonable, equitable and appropriate.

Amendment and Termination

Unless earlier terminated, our equity incentive plans continue in effect for a term of ten years. The board may at any time terminate or amend a plan in any respect, including amendment of any form of any award agreement or instrument to be executed, provided, however, that to the extent necessary and desirable to comply with applicable laws or stock exchange rules, shareholder approval of any amendment to a plan shall be obtained in the manner and to the degree required.

Question 22

Do you agree with the proposal to require disclosure of matters reviewed by the remuneration committee during the reporting period in the Corporate Governance Report?

No

Please provide reasons for your views.

We disagree with the proposal for the reasons as provided in our answers to question 3 in the above.

Question 23

Do you agree with the proposal to require changes to the terms of share award or option granted be approved by the remuneration committee and/or shareholders of the issuer if the initial grant of the award or option requires such approval?

Yes

Please provide reasons for your views.

We agree with the proposal that changes to the terms of the share award or option granted may be approved by the remuneration committee and/or shareholders if the initial grant of the options or awards was approved by the remuneration committee and/or shareholder (as the case may be), provided such changes are of a material nature. This gives the flexibility for the listed issuer to amend the terms of share award or option granted without incurring unduly burdensome cost involving compliance issues, and at the same time, ensuring that shareholders' interests are being afforded a sufficient level of protection.

Question 24

Do you agree with the proposal to provide a waiver for a transfer of share awards or options granted under Share Schemes as described in paragraph 86 of the Consultation Paper?

Yes

Please provide reasons for your views.

We agree with the proposal to provide for the ability to transfer share awards or options to a trust or other vehicles for the benefit of grantee and his/her family members as this will provide flexibility for scheme participants to structure his/her portfolio structure. However, note to rule 17.03(17) does not provide clear guidance as to the factors that will be taken into account by the Exchange in granting such waiver. In order to provide certainty to issuers and market practitioners, we invite the Exchange to consider setting out the factors that will be taken into consideration in its assessment of such waiver application in order to prove to its satisfaction that such transfer to a trust or vehicle will continue to meet the purpose of the scheme. We recommend the Exchange to consider whether or not such waiver should be automatically granted or whether waiver should only be granted upon application and subject to fulfilment of certain conditions, particularly considering the potential large volume of such applications.

Question 25

Do you agree with the proposal to restrict the voting rights of unvested shares held by the trustee of a Share Scheme and require disclosure of the number of such unvested shares in monthly returns?

No

Please provide reasons for your views.

We agree with the proposal that trustee with unvested shares of a share scheme shall abstain from voting on matters that require shareholders' approval under the Listing Rules,

in order to deal with concerns about undue influence over exercise of voting rights of unvested shares, particularly in the case where these are held by members of the management team of the issuer.

However, in relation to disclosure, since the number of unvested shares would have been included in the monthly returns for investors' information, the investors should be able to gauge the amount of unvested shares which are subject to voting restrictions. The number of unvested shares held by the trustee would be redundant information for investors without adding much additional value.

Question 26

Do you agree with the proposed disclosure requirements for Share Schemes funded by existing shares of listed issuers?

No

Please provide reasons for your views.

We disagree with the proposed disclosure requirements for Share Schemes funded by existing shares of listed issuers as we are of the view that share award schemes that do not involve issue of new shares or change in the issued share capital shall not be subject to the amended Chapter 17. Please refer to our answers to question 28 below.

Question 27

Do you agree with the proposal to restrict the voting rights of unvested shares held by the trustee of a Share Scheme and require disclosure of the number of such unvested shares in monthly returns?

Yes

Please provide reasons for your views.

We agree with the proposal for the same reasoning as provided in our answers to question 25.

Question 28

Do you agree with our proposal to amend Chapter 17 to also govern share award schemes funded by new or existing shares of subsidiaries of listed issuers?

No

Please provide reasons for your views.

Whilst we agree with the proposal to amend Chapter 17 to govern share award schemes involving the grant of new shares of subsidiaries of listed issuer, we urge the Exchange to consider whether share award schemes of subsidiaries of listed issuers that do not involve issue of new shares or change in the issued share capital shall also be governed by Chapter 17 as share award schemes of subsidiaries that do not involve issue of new

shares or change in the issued share capital will not have any dilutive impact on the listed issuer's interest in subsidiaries and also shareholders of the listed issuer.

Question 29

Do you agree with the proposed exemption for Share Schemes of Insignificant Subsidiaries?

Yes

Please provide reasons for your views.

If the Exchange decides to implement proposal P that Chapter 17 shall also govern share award scheme of subsidiaries of listed issuers, we agree in principle with the proposed exemption for Share Schemes of Insignificant Subsidiaries. However, we are of the view that the proposed exemption should be expanded to cover exemption from disclosure requirements as well. We invite the Exchange to consider whether or not extension of the application of Chapter 17 and financial report disclosure requirements of the Share Schemes of Insignificant Subsidiaries will be meaningful and necessary, if at all, to shareholders, such disclosure requirement will be unduly burdensome to listed issuers that are conglomerate with a vast number of subsidiaries. If the Exchange considers that the exemption for Share Schemes of Insignificant Subsidiaries should be limited to exemption from the shareholders' approval requirement only, the Exchange should then consider whether or not exemption from the disclosure requirement shall be granted under certain circumstances, for example, in the case of conglomerate with large share capital and a vast number of subsidiaries.

Question 30

Do you agree with our proposal to amend Chapter 17 to also govern Share Schemes involving grants of shares or options through trust or similar arrangements for the benefit of specified participants?

Yes

Please provide reasons for your views.

We agree that Share Schemes involving grants of shares or options through trust or similar arrangements for the benefit of specified participants should be subject to Chapter 17. As the adoption of "shareholding platform" (mostly in the form of limited partnership) is commonly seen for share incentive schemes in the PRC, the Exchange should provide further guidance to clarify whether or not such schemes will be subject to Chapter 17.

Question 31

Do you agree with our proposal to remove the recommended disclosure requirement for the fair value of options as if they have been granted prior to the approval of the scheme?

Yes

Please provide reasons for your views.

We agree with the proposal to remove the recommended disclosure requirement for the fair value of options as if they have been granted prior to the scheme, as such disclosure will have to be made in the annual reports and interim reports as proposed under Proposal (I).

Question 32

Do you agree with our proposals to amend the Rules described in paragraph 100 of the Consultation Paper?

Yes

Please provide reasons for your views.

We agree with the proposal to amend rules 3.12(2), 10.08(1), 13.52(1)(e)(ii) and paragraph 7 of Appendix 10 in order to ensure consistency with regard to their application to both share option schemes and share award schemes.