

Submitted via Qualtrics

Company/Organisation view

Question 1

Do you agree with the proposal to amend the Listing Rules to remove the requirement to cancel repurchased shares?

No

Please provide reasons for your views.

We strongly believe the proposal to allow companies to keep repurchased shares as treasury shares is detrimental to shareholder interest and the integrity as well as the healthy development of the Hong Kong capital market.

We have four main concerns with the proposal:

1) Weakening share buyback as a way to support share price

In addition to returning capital to shareholders, share buyback has served as an important tool for a company to support its share price during times of market dislocation by directly reducing the number of shares outstanding as well as signalling to the market that the company is undervalued. This function will likely get undermined if companies are allowed to keep repurchased shares as treasury shares and can resell them on-market.

2) Imprudent capital management

One of the reasons behind the proposal is to allow companies more flexibility to adjust its capital structure with the belief that it may lead to lower cost of capital. We disagree. We are of the view that capital management is one of the critical aspects of running a company and any capital raising and reduction decision should be made in a considered manner. Frequent buying and selling its own shares in a piecemeal fashion is not a sign of competent management in our view. This is why we have been voting against the re-issuance mandate, which allows the buying and selling of a company's own shares in the same 12-month period, at all Hong Kong listed companies we invest in. We believe companies already enjoy ample capital raising flexibility from the general mandate.

3) Market manipulation

Allowing companies to trade in and out of its own shares naturally opens up more possibilities for insider trading and market manipulation. No amount of regulation is sufficient to prevent it and certainly not the proposed 30-day moratorium.

4) Anti-takeover mechanism

While companies can already issue shares under the general mandate to a white knight during a hostile takeover, the ability to use treasury shares as consideration shares under the proposal will make it even quicker and easier.

Because of the above concerns, we are strongly against the proposed amendments regarding treasury shares. We also note that these concerns are widely shared by institutional investors who have been engaging with companies in other markets where treasury shares are allowed to cancel those treasury shares voluntarily. We believe the Exchange would be doing a disservice to investors and itself if it introduces treasury shares while other markets are seeing its exit.

In the unfortunate event that the Exchange decides to go ahead with the proposal, we believe the following safeguards should be adopted to mitigate the negative impacts.

1. Prohibit on-market resale of treasury shares
2. Cap the treasury shares at 5% of issued capital
3. Automatically retire and cancel treasury shares after one year
4. If on-market resale is allowed, extend the moratorium period to 90 days to enhance deterrence against market speculation and manipulation.
5. Remove the re-issuance mandate and reduce the maximum size and discount of the general mandate to 10% from the current 20%, following the same rules of calculation.

We have provided our answers to Q2 to Q13 to offer our views on questions that are only relevant should treasury shares be allowed. However, our fundamental stance is that we do not think treasury shares should be allowed.

Question 2

Do you agree with the proposal to require a resale of treasury shares to be subject to the same requirements as an issue of new shares as described in Proposal (1)(a) to (c) above?

Yes

Please provide reasons for your views.

In the event that the Exchange decides to go ahead with the proposal, we believe on-market resale of treasury shares should be prohibited; if on-market resale is allowed, the

moratorium period should be extended to 90 days to enhance deterrence against market speculation and manipulation.

Question 3

Do you agree with the proposal to require a resale of treasury shares (whether on-market or off-market) to be subject to a moratorium period after a share repurchase?

Yes

Please provide reasons for your views.

We believe the moratorium should be extended to 90 days to enhance deterrence against market speculation and manipulation.

Question 4

Do you agree with the proposal to require an on-Exchange share repurchase to be subject to a moratorium period after an on Exchange resale of treasury shares?

Yes

Please provide reasons for your views.

Question 5

Do you consider that the moratorium periods (in either direction) should be shorter than 30 days? If so, please share with us your views on the appropriate duration of the moratorium periods and the reason for your suggestion including your views on how the considerations in paragraph 68 should be addressed.

No

Question 6

Do you agree with the proposal that dealing restrictions described in paragraph 69 under Proposal (2)(b) above shall be imposed on a resale of treasury shares on the Exchange?

Yes

Please provide reasons for your views.

Question 7

Do you agree with the proposals for an on-market resale of treasury shares as described in paragraph 70 under Proposal (2)(b) above?

Yes

Please provide reasons for your views.

Question 8

Do you agree with the proposal relating to new listing applicants as described in Proposal (3) above?

Yes

Please provide reasons for your views.

In the event that the Exchange decides to go ahead with the proposal, we believe treasury shares should be capped at 5% of issued capital. However, our fundamental stance is that we do not think treasury shares should be allowed.

Question 9

Do you agree with the proposal to require issuers (being holders of treasury shares) to abstain from voting on matters that require shareholders' approval under the Listing Rules as described in Proposal (4)(a) above?

Yes

Please provide reasons for your views.

Question 10

Do you agree with the proposal to disregard treasury shares for calculating an issuer's issued shares and voting shares under the Rules as described in Proposal (4)(b) above?

Yes

Please provide reasons for your views.

Question 11

Do you have any comments regarding the different treatment of treasury shares when calculating an issuer's issued voting shares under the proposed Rules and Part XV of the SFO as described in paragraph 77 above?

Question 12

Do you agree with the proposal to require an issuer to disclose in the explanatory statement its intention as to whether the repurchased shares will be cancelled or kept as treasury shares as described in Proposal (4)(c) above?

Yes

Please provide reasons for your views.

In the event that the Exchange decides to go ahead with the proposal, we encourage full disclosure to enhance transparency, such as purpose of use (cancellation, share incentive scheme, etc) and if planned to be cancelled, the cancellation timeline.

Question 13

Do you agree with the proposal to clarify that a resale of treasury shares by an issuer or its subsidiary includes resale of treasury shares through their agents or nominees as described in Proposal (4)(d) above?

Yes

Please provide reasons for your views.