

LISTING COMMITTEE REPORT

2017



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# FOREWORD

This report is an account of the work of the Listing Committee<sup>1</sup> of The Stock Exchange of Hong Kong Limited (the “Exchange”) for the year ended 31 December 2017. It highlights the issues the Listing Committee has dealt with during the year which it believes will be of greatest interest to the investing public, practitioners and listed issuers, and outlines the position or action the Listing Committee, the Listing Department (the “Department”) and the Exchange have taken. It also includes a policy agenda of issues that the Listing Committee plans to consider in 2018 and beyond.

This report has been prepared for the board of the Exchange and the board of its parent company, Hong Kong Exchanges and Clearing Limited (“HKEX”) and was approved for submission to those boards on 28 February 2018. It will be forwarded to the Financial Services and the Treasury Bureau, the Securities and Futures Commission (“SFC”) and posted on the HKEX website.

2017 has been a busy year for the Listing Committee and the Exchange. The Listing Committee considered 112 listing applications in addition to hearing 26 review and 12 disciplinary cases. Sub-committees were formed and meetings held to discuss market quality issues relating to capital raisings, backdoor listing and corporate governance. The Listing Committee members also officiated 174 listing ceremonies.

The Exchange also published 14 listing decisions, updated nine guidance letters, and published six consultation papers, including consultations on a review of GEM<sup>2</sup> (the “GEM Consultation Paper”), capital raisings<sup>3</sup> (the “Capital Raisings Consultation Paper”), delisting and other Rule Amendments<sup>4</sup> (the “Delisting Consultation Paper”) and a review of the Corporate Governance Code and Related Listing Rules<sup>5</sup> (the “Corporate Governance Consultation Paper”).

The GEM Consultation Paper published on 16 June 2017 was part of a package of proposals<sup>6</sup> that aimed to broaden capital markets access in Hong Kong and strengthen Hong Kong’s listing regime. The Exchange proposed changes to its rules for GEM to address recent market and regulatory concerns regarding the quality and performance of applicants to, and listed issuers on, GEM. The proposed changes to the Rules<sup>7</sup> also aimed to ensure there is a clear distinction between the eligibility requirements for the Main Board and GEM. The Exchange published its consultation conclusions on 15 December 2017 stating that most of the proposals would be implemented.

The Exchange published the Capital Raisings Consultation Paper on 22 September 2017 to introduce targeted measures in the Rules to address potential abuses related to large scale deeply discounted capital raising activities (amongst other proposals). On the same day, the Exchange also published the Delisting Consultation Paper proposing changes to the Rules to improve the effectiveness of the delisting framework and to address the issue of the prolonged suspension of trading in listed issuers’ listed securities. The consultation period for both the Capital Raisings Consultation Paper and the Delisting Consultation Paper closed on 24 November 2017. The Exchange is reviewing the responses and plans to publish both consultation conclusions in 2018.

1 The Main Board and GEM Listing Committees have operated as a combined committee since 2003, and membership of the committees was fully unified in May 2006. The expressions “Listing Committee” and “Committee” refer to the combined committees.

2 Consultation Paper on the Review of GEM and Changes to the GEM and Main Board Listing Rules.

3 Consultation Paper on Capital Raisings by Listed Issuers.

4 Consultation Paper on Delisting and other Rule Amendments.

5 Consultation Paper on Review of the Corporate Governance Code and Related Listing Rules.

6 The HKEX published the New Board Concept Paper on the same day. The proposals in the New Board Concept Paper were designed to enhance Hong Kong’s ability to attract companies from emerging and innovative sectors with one or more characteristics that currently prevent them from listing here.

7 The Rules comprise the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Main Board Rules”) and Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (“GEM Rules”). Rule references in this report are to the Main Board Rules unless otherwise specified.

The Corporate Governance Consultation Paper was published on 3 November 2017. The proposals aimed to address a number of corporate governance concerns such as the independence of independent non-executive directors (“INEDs”), overboarding by some INEDs, the responsibility of the nomination committee and board diversity. The consultation period closed on 8 December 2017. The Exchange is reviewing the responses and plans to publish the consultation conclusions in 2018.

The Listing Committee continued to focus on the quality and reputation of the Exchange’s markets and take a more robust approach to delist listed issuers with a very low level of operation<sup>8</sup> and long suspended issuers with material accounting or corporate governance irregularities<sup>9</sup>. The Exchange also provided guidance on when the Exchange would consider that an issuer was not operating a business of sufficient substance to maintain its listing status after a material disposal or a spin-off proposal<sup>10</sup>. In 2018, the Listing Committee will continue to make improving the quality and reputation of the Exchange’s markets a high priority. In addition, the Listing Committee will also focus its attention on the proposed rules and regulations to enhance Hong Kong’s ability to attract companies from the emerging and innovative sectors with appropriate safeguards.

The Listing Committee’s work over the past year was conducted against the background of the publication, in September 2017, by HKEX and SFC of the Joint Consultation Conclusions on Proposed Enhancements to The Stock Exchange of Hong Kong Limited’s Decision-Making and Governance Structure for Listing Regulation (the “Joint Consultation Conclusions”). The SFC and the Exchange concluded that the role of the Listing Committee under the Listing Rules will remain largely unchanged<sup>11</sup>. A Listing Policy Panel will be established as an advisory, consultative and steering body to centralise discussions on listing policy with broader regulatory or market implications. The Exchange will conduct a subsequent consultation on the review system for decisions of the Listing Committee in 2018. The Listing Committee and the Exchange look forward to continuing its close working relationship with the SFC and addressing the 2018 policy agenda with shared commitment and resolve.

In addition to its vetting, supervision and enforcement responsibilities, the Exchange continued its market education efforts on listing matters by launching four director training webcasts<sup>12</sup> covering a broad range of topics including but not limited to the duties of directors, risk management and internal control. These webcasts are designed to enable directors to understand the responsibilities they have undertaken as directors of listed issuers with an emphasis on providing practical advice and tips on how to tackle challenging scenarios through real-life case studies.

Also, in April 2017, the Listing Committee held Pedal Power 2017 for the seventh consecutive year. This initiative has raised more than \$1.3 million for specially selected local secondary school students to participate in leadership courses with Outward Bound Hong Kong. The Listing Committee also organised the “Hike for Hong Kong” in October and raised over \$480,000 for HandsOn Hong Kong to run a workshop programme to improve the employable skills of students with intellectual disabilities.

8 See Listing Decisions (HKEX-LD115-2017) and (HKEX-LD116-2017) issued in November 2017.

9 See Listing Decision (HKEX-LD114-2017) issued in October 2017.

10 See Listing Decisions (HKEX-LD112-2017) and (HKEX-LD117-2017) issued in October and November 2017, respectively.

11 Going forward, the Chief Executive of HKEX will attend Listing Committee meetings as a non-voting member representing the HKEX’s board only where listing policy matters are discussed, and will not attend Listing Committee meetings on individual cases.

12 The webcasts are on “Duties of Directors and Role and Function of Board Committees”, “Risk Management and Internal Control, ESG Reporting”, “Corporate Governance – Director and Company Secretary’s Roles” and “Directors’ Responsibilities at IPOs”.

The Department continued to perform well and maintained its very high standards during the year. I wish to thank my two Deputy Chairmen, fellow Listing Committee members, the Head of Listing David Graham and the Department for their insight, dedication and hard work.

A handwritten signature in black ink, appearing to read 'Andrew Weir', with a stylized, cursive script.

**Andrew Weir**  
Chairman

## MAIN ISSUES ARISING IN THE YEAR

1. This section contains the issues that the Listing Committee has dealt with during the year which it believes will be of greatest interest to the investing public, practitioners and listed issuers, and outlines the position or action the Listing Committee, the Department and the Exchange have taken. A full list of policy matters considered by the Committee is set out in Appendix 2.

## CONSULTATIONS

### ***Joint Consultation Conclusions on Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation***

2. The SFC and HKEX published a consultation paper on Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation on 17 June 2016. The consultation period closed on 18 November 2016. A total of 8,793 submissions were received from a broad range of respondents. On 15 September 2017, the SFC and HKEX published the Joint Consultation Conclusions.
3. After carefully considering market feedback, the SFC and the Exchange decided to adopt the way forward as set out in the Joint Consultation Conclusions:
  - (a) The role of the SFC as the statutory regulator is to administer the Securities and Futures Ordinance and the Securities and Futures (Stock Market Listing) Rules, and supervise, monitor and regulate the activities carried on by the Exchange, as well as the Exchange's role as the regulator administering the Listing Rules. The role of the SFC as a statutory regulator has evolved to have a more direct presence in more serious areas of listing regulation;
  - (b) A new Listing Policy Panel will be established as an advisory, consultative and steering body outside the SFC and the Exchange to centralise discussion of listing policies with broader regulatory or market implications;
  - (c) The role of the Committee under the Listing Rules will remain largely unchanged. Going forward, the Chief Executive of HKEX will attend Committee meetings as a non-voting member representing the HKEX's board only where listing policy matters are discussed, and will not attend Listing Committee meetings on individual cases; and
  - (d) The SFC will discharge its statutory oversight of the Exchange's listing function through a materially enhanced, published audit of the Committee and the Department.
4. To enhance governance within the Exchange's structure for reviewing the Committee's decisions, the Exchange will conduct a separate consultation in 2018 on the review system for decisions of the Committee.
5. The consultation conclusions and copies of respondents' submissions are available on the HKEX website.

***New Board Concept Paper and Its Consultation Conclusions and Consultation Paper and Consultation Conclusions on the Review of GEM and Changes to the GEM and Main Board Listing Rules***

6. The HKEX and the Exchange launched a consultation on 16 June 2017 to seek public feedback on a package of proposals to broaden capital markets access in Hong Kong and strengthen Hong Kong's listing regime through two separate papers:
  - (a) The New Board Concept Paper; and
  - (b) The GEM Consultation Paper.
7. The responses to the proposals for these consultations were considered holistically to reach a balanced conclusion on the most appropriate listing framework for Hong Kong.

*New Board Concept Paper and Its Consultation Conclusions*

8. The proposals in the New Board Concept Paper were designed to broaden current capital markets access in Hong Kong by opening up to a more diverse range of companies. The HKEX published the consultation conclusions on 15 December 2017.
9. The consultation paper, consultation conclusions and copies of respondents' submissions are available on the HKEX website.

*Consultation Paper and Consultation Conclusions on the Review of GEM and Changes to the GEM and Main Board Listing Rules*

10. In the GEM Consultation Paper, the Exchange proposed changes to the GEM Rules and the purpose of such proposal was to address recent market and regulatory concerns regarding the quality and performance of applicants to, and listed issuers on, GEM. These include concerns about price volatility of GEM securities after listing, whether there is an open market for all GEM listings and the possible exploitation of GEM as a means of achieving a Main Board listing without a commensurate due diligence process at the relevant time. The Exchange also proposed changes to the Main Board Rule eligibility requirements and the purpose of such proposal was to ensure there is a clear distinction between the Main Board and GEM as the proposed GEM listing requirements narrowed the difference between the two boards.
11. The consultation period closed on 18 August 2017. The Exchange received a total of 100 responses from professional bodies, market participants, listed issuers, industry associations and other entities. The majority of the responses were in favour of the proposals. The Exchange published the consultation conclusions on 15 December 2017 stating that most of the proposals would be implemented. The rule amendments became effective on 15 February 2018, subject to the transitional arrangements as set out in the consultation conclusions.



12. Below are the key changes to the Main Board and GEM Rules adopted under the consultation conclusions:
- (a) The removal of the streamlined process for GEM transfers to the Main Board;
  - (b) The introduction of a mandatory sponsor requirement for transfer of listing from GEM to the Main Board, and a sponsor must be appointed at least two months before the submission of a listing application;
  - (c) An increase in the minimum expected market capitalisation of GEM applicants at the time of listing from \$100 million to \$150 million and a corresponding increase in the minimum public float value of GEM companies at the time of listing from \$30 million to \$45 million;
  - (d) An increase in the minimum expected market capitalisation of Main Board applicants at the time of listing from \$200 million to \$500 million and a corresponding increase in the minimum public float value of Main Board companies at the time of listing from \$50 million to \$125 million;
  - (e) An increase in the minimum cash flow requirement for GEM applicants from \$20 million to \$30 million;
  - (f) The introduction of a mandatory public offering requirement of at least 10 per cent of the total offer size for all GEM IPOs; and
  - (g) An extension of the post-IPO lock-up requirement on controlling shareholders from one year to two years for GEM while there will be no change to the post-IPO lock-up requirement for the Main Board.
13. The consultation paper, consultation conclusions and copies of respondents' submissions are available on the HKEX website.

### ***Consultation Paper on Capital Raisings by Listed Issuers***

14. The Exchange published the Capital Raisings Consultation Paper on 22 September 2017 to introduce targeted measures in the Rules to address potential abuses related to large scale deeply discounted capital raising activities. The proposals relating to highly dilutive issues seek to prohibit market practices that may jeopardise an orderly, fair and informed market for the trading and marketing of securities and to ensure fair and equal treatment of all shareholders. The Capital Raisings Consultation Paper also contains proposals to address specific issues concerning other capital raising and share issuance transactions.
15. Specifically, the Capital Raisings Consultation Paper includes proposed Rule amendments to:
- (a) Disallow highly dilutive capital raisings through rights issues, open offers and specific mandate placings, unless there are exceptional circumstances;
  - (b) Address specific issues relating to the terms of rights issues and open offers that may not afford fair and equal treatment for all shareholders;
  - (c) Improve shareholder protection against material dilution in placings of warrants or convertible securities under general mandate;
  - (d) Enhance the disclosure of the use of proceeds from capital raisings; and
  - (e) Impose a minimum price restriction on share subdivision and bonus issue of shares with a view to maintaining an orderly market for trading securities.

16. The consultation period closed on 24 November 2017. The Exchange is considering the responses received and plans to publish the consultation conclusions in 2018.
17. The consultation paper is available on the HKEX website.

### ***Consultation Paper on Delisting and other Rule Amendments***

18. The Exchange published the Delisting Consultation Paper on 22 September 2017 to propose changes to the Listing Rules to improve the effectiveness of the delisting framework and address the issue of prolonged suspension of trading in listed issuers' listed securities. An effective delisting procedure will facilitate an orderly exit of poor quality issuers, incentivize suspended listed issuers to act promptly towards resumption and provide a deterrent against listed issuers committing material breaches of the Rules. This is in the interest of maintaining market quality and reputation.
19. The Delisting Consultation Paper includes proposed amendments to Main Board and GEM Rules to add a separate delisting criterion to allow the Exchange to delist an issuer after its continuous suspension for a prescribed period. The proposals also specify a new delisting process under the Main Board Rules. Under this new process, the Exchange may (a) publish a delisting notice and give the issuer a period of time to remedy the relevant issues to avoid delisting, or (b) delist the issuer immediately in appropriate circumstances. As the new process will also apply to listed issuers without sufficient operations or assets, Practice Note 17 will be removed.
20. The Delisting Consultation Paper also provides transitional arrangements for Main Board/ GEM listed issuers whose securities are under suspension immediately before the effective date of the above proposed framework, and proposes other minor Rule amendments relating to delisting.
21. The consultation period closed on 24 November 2017. The Exchange is considering the responses received and plans to publish the consultation conclusions in 2018.
22. The consultation paper is available on the HKEX website.

### ***Consultation Paper on Review of the Corporate Governance Code and Related Listing Rules***

23. The Exchange published the Corporate Governance Consultation Paper on 3 November 2017. This consultation is part of the Exchange's ongoing initiative to raise the overall standard of corporate governance amongst listed issuers and directors. The proposals aimed to address a number of corporate governance concerns such as the independence of INEDs, overboarding by some INEDs, the responsibility of the nomination committee and board diversity.
24. The Corporate Governance Consultation Paper proposes Rule amendments in relation to:
  - (a) Overboarding and INED's time commitment;
  - (b) Identification and nomination of INEDs;
  - (c) Factors affecting independence of INEDs;
  - (d) Board diversity policy and proposed INED's contribution to board diversity;
  - (e) Directors' attendance of meetings; and
  - (f) Dividend policy.

25. The consultation period closed on 8 December 2017. The Exchange is considering the responses received and plans to publish the consultation conclusions in 2018.
26. The consultation paper is available on the HKEX website.

### ***Consultation Paper on Proposed Exemption for Aircraft Leasing Activities***

27. In recent years, the Hong Kong Government has promoted the development of Hong Kong as an aircraft leasing and financial hub (e.g. profit tax concession to qualifying aircraft leasing companies). The Financial Services Development Council's ("FSDC") has also recommended that the Listing Rules should be revised to introduce a general exemption from certain continuing obligations for aircraft lessors in Hong Kong.
28. The Exchange published the Consultation Paper on Proposed Exemption for Aircraft Leasing Activities on 17 November 2017. The Exchange proposes Rule changes to provide certain exemptions from the notifiable transaction Rules for aircraft leasing activities that are carried out by listed aircraft lessors in their ordinary and usual course of business. The proposed exemption targets the practical difficulties faced by these listed aircraft lessors when they carry out acquisitions, disposals and finance leases of aircraft with aircraft operators as their principal activities.
29. The consultation period closed on 22 December 2017. The Exchange is considering the responses received and plans to publish the consultation conclusions in 2018.
30. The consultation paper is available on the HKEX website.

### ***Consultation Paper on Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments***

31. The Exchange published the Consultation Paper on Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments on 3 November 2017 to simplify and streamline the administrative procedures involved in the submission and collection of documents to enhance procedural efficiency. The consultation paper also sets out other proposed minor Rule amendments and a number of housekeeping Rule amendments that involve no change in policy direction.
32. The consultation period closed on 8 December 2017. The Exchange is considering the responses received and plans to publish the consultation conclusions and related Rule amendments in 2018.
33. The consultation paper is available on the HKEX website.

## **PROSPECTUS AND LISTING PROCESS**

### ***Reallocation Mechanism of Shares between the Public Subscription Tranche and the Placing Tranche***

34. The Committee considered a proposal to limit the proportion of shares that could be reallocated from the public subscription tranche to the placing tranche and related matters at the March and October 2016 policy meetings and recommended further discussions with market participants. The Department conducted full and comprehensive discussions with market participants before it presented the revised proposals to the Committee.

35. At the October 2017 policy meeting, the Committee considered the Department’s revised proposal to include guidance on how the reallocation cap will be affected if (a) the new applicant exercises the over allocation option<sup>13</sup>; and/or; (b) the clawback mechanism is triggered under Main Board Practice Notice 18 (GEM Practice Note 6). The Department has revised the guidance letter to cover specific circumstances under which a listing applicant may reallocate shares from the placing tranche to the public subscription tranche other than pursuant to Main Board Practice Notice 18 (GEM Practice Note 6) or the modified requirements under Main Board Practice Notice 18 (GEM Practice Note 6) which have been agreed with the Exchange, or over-allocate shares to the public subscription tranche. The Guidance Letter ([HKEX-GL91-18](#)) was published on 2 February 2018 and is available on the HKEX website.

### ***Pricing Flexibility for Initial Public Offerings***

36. At the October 2016 policy meeting, the Committee considered a pricing flexibility proposal to allow, subject to certain conditions, an IPO to be priced below the indicative offer price or price range without withdrawing and relaunching the offer.
37. At the June 2017 policy meeting, the Committee endorsed the publication of a guidance letter on the pricing flexibility mechanism on a pilot basis. The Department synchronized the timing of publishing this Guidance Letter ([HKEX-GL90-18](#)) with the timetable for publication of the Guidance Letter ([HKEX-GL91-18](#)) on the reallocation mechanism (see section directly above). Both guidance letters were published together on 2 February 2018 and are available on the HKEX website.

### ***Review of Listing Document Simplification Guide***

38. The Department reviewed whether the market has generally followed the Guidance Letter ([HKEX-GL86-16](#)) “Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications” (“[GL86-16](#)”)<sup>14</sup> during the 14-month-period from February 2016 to March 2017 and reported its findings to the Committee at the June 2017 policy meeting. The Committee noted there was a decrease of 26% in the average number of pages of listing documents. For each individual section, the number of pages varied widely for different applicants. There was a small reduction in the absolute number of comments made by the Department to listing applicants that were related to [GL86-16](#).
39. The Committee agreed with the Department’s proposals to update Guidance Letter ([HKEX-GL56-13](#)) “Guidance on (i) disclosure requirements for substantially complete Application Proofs; and (ii) publication of Application Proofs and Post Hearing Information Packs on the Exchange’s website” (“[GL56-13](#)”) to provide that, for GEM applicants, if fundamental issues such as business model or operations were not clearly understandable after two rounds of comments from the Department, the listing document disclosure may be considered as not substantially complete and the Department may return the listing application.
40. The updated [GL86-16](#), together with the updated [GL56-13](#) and the relevant press release were presented to and approved by the Committee in August 2017. The updated [GL86-16](#), updated [GL56-13](#) and [press release](#) were published on 11 August 2017 and are available on the HKEX website.

13 Where an applicant has granted its underwriters an over-allotment option to increase the offer size for price stabilisation purpose.

14 [GL86-16](#) was published in February 2016.

### ***Ownership Continuity and Control Requirement***

41. The Department reviewed the purpose of the ownership continuity and control requirement under the Listing Rules as requested by the Committee, and presented its findings to the Committee in July 2017.
42. The Committee noted that the purpose of the ownership continuity requirement was to ensure that the financial accounts for at least the last financial year of the track record period reflected the actual dynamics between the controlling shareholder(s) and the management. This means that the listing applicant must have been operated as an integrated unit under the same controlling shareholder(s) who was able to exert substantial influence on the management.
43. The Committee agreed that the Department should advise the market of the rationale for the ownership continuity requirement. The Exchange amended the Guidance Letter ([HKEX-GL89-16](#)) in October 2017 and withdrew Rejection Letter RL5-05 as it was not reflective of the current guidance.

## **LISTING MATTERS**

### ***Director Training Program 2017***

44. The 2016 Listing Committee report stated that the Exchange planned to roll out in the first quarter of 2017 a new training program for directors that would cover a broad range of topics, including duties of directors, risk management and internal control.
45. The Exchange has launched three director training webcasts on the following areas (each of the items below links to the relevant webcasts):
  - (a) Duties of Directors and Role and Function of Board Committees;
  - (b) Risk Management and Internal Control, ESG Reporting; and
  - (c) Corporate Governance – Director and Company Secretary’s Roles.
46. Each of the webcasts covers six or seven topics and each topic is explained in a short video posted on the HKEX website. These webcasts are designed to enable directors to understand the responsibilities they have undertaken as directors of listed issuers with an emphasis on providing practical advice and tips on how to tackle challenging scenarios through real-life case studies.
47. The latest director training webcast, on Directors’ Responsibilities at IPOs, was released on 12 February 2018.

## **Review of Listed Issuers' Annual Disclosure**

### *Financial Statements Review*

48. The Department has conducted an annual review of listed issuers' published periodic financial reports since 2009. Not all the financial reports published in a year are reviewed. The review adopts a risk-based selection and is an educational program to help listed issuers to enhance their knowledge of the disclosures required under the Listing Rules, accounting standards and the Companies Ordinance. In 2017, the Department reviewed 100 reports and sent 83 letters to listed issuers that contained more than 260 enquiries or observations.
49. Except for three cases which were referred to the Financial Reporting Council for further enquiry and investigation of possible accounting and auditing irregularities, there were no significant breaches of the Rules or accounting standards that would render the financial statements misleading, or require their restatement or warrant disciplinary action.
50. The Financial Statements Review Programme Report 2016 was published on 14 July 2017 on the HKEX website.

### *Review of Disclosure in Annual Reports*

51. The Department has conducted an annual review of listed issuers' annual reports since 2013 as part of its ongoing monitoring and compliance activities. The Department reviewed the disclosures in the annual report of issuers that carried out activities falling within the selected themes of each review. The themes are selected with reference to the issues observed through the Department's monitoring efforts and the latest regulatory development.
52. In 2017, the Department reviewed annual reports with a financial year ended between January and December 2016. The Exchange is generally satisfied with the findings from its review of disclosures about: the use of proceeds from equity fundraisings; material asset impairments; results of performance guarantees that formed part of the acquisition agreements; and continuing connected transactions. The Exchange encourages issuers to take note of the Exchange's recommendations, especially those in respect of financial statements with auditors' modified opinions<sup>15</sup>, newly listed issuers and business review in Management Discussion and Analysis.
53. The Review of Disclosure in Issuers' Annual Reports to Monitor Rule Compliance Report 2017 was published on 26 January 2018 on the HKEX website.

## **Corporate Governance Implementation Review**

54. The Department has conducted an annual or biannual analysis of listed issuers' corporate governance disclosure in annual reports since 2007. In 2017, the Department conducted a review of listed issuers' corporate governance practices by analysing the disclosures made by 1,428 listed issuers with a financial year-end date of 31 December 2016 in their annual reports. Those listed issuers represented approximately 72% of all listed issuers listed as at 31 December 2016, which was large enough to be representative of the whole listed issuer population. This followed the review of listed issuers' compliance with the Corporate Governance Code and Corporate Governance Report (the "CG Code") in their 2014 annual reports ("2014 Review") and similar reviews of listed issuers with financial year ended March and June 2015.

15 The Department has an established practice and procedures in vetting results announcements of listed issuers, including those with audit modifications. The current approach in handling disclaimer cases has taken into account relevant factors in line with those recommended by the SFC. The Department's follow up actions include: trading suspension; requiring additional disclosure to clarify the reasons for the modifications and the issuer's actions to address the modifications; closely monitoring of issuer's activities and developments; and/or referrals of potential breaches of Rules or the Securities and Futures Ordinance to Listing Enforcement Department or the SFC (as the case may be).

55. The review showed that listed issuers' overall compliance level with the CG Code had improved since the 2014 Review, and that the vast majority of listed issuers had adopted the new higher level of reporting obligations resulting from the 2016 amendments to the risk management and internal control section of the CG Code.
56. The Committee approved the publication of the Analysis of Corporate Governance Practice Disclosure in 2016 Annual Reports which was published on 13 October 2017 on the HKEX website.

### ***Listing of Green Bonds***

57. In light of People's Bank of China's report in April 2015 on proposals to develop China's green financial system and the FSDC paper in May 2016 on proposals to develop Hong Kong as a regional green hub<sup>16</sup>, the Department presented a report to the Committee at the June 2017 policy meeting on the listing of green bonds.
58. The Committee noted the commonly adopted green standards, the overview of green bond listing regimes adopted by various stock exchanges and the views of market practitioners on green bond listings as set out in the Department's report.
59. The Department will continue to monitor green finance development in Hong Kong, explore the appropriate regulatory framework for green bonds listings in Hong Kong, and provide the necessary regulatory support.

### ***FSDC's Recommendations on the Listed Structured Products Market***

60. At the June 2017 policy meeting, the Department informed the Committee of the findings in FSDC's paper published in April 2017 regarding a review of Hong Kong's listed structured products market. To maintain Hong Kong's status as one of the leading structured products markets, the FSDC had the following recommendations:
  - (a) Introduce new categories of listed structured products;
  - (b) Review the Exchange's naming conventions for stock short names;
  - (c) Shorten the timeframe and streamline the process to launch a new listed structured product;
  - (d) Offer financial incentives to support new product types;
  - (e) Allow flexible liquidity provisioning for new products; and
  - (f) Support joint market efforts for investor education.
61. The Department and the relevant business units of HKEX are considering and following up on the FSDC's recommendations.

<sup>16</sup> The FSDC proposed eight recommendations for Hong Kong to kick start the process to engage in green sector opportunities. The recommendations are mainly initiatives related to the Government, and in relation to listing, FSDC recommended listing reforms to allow fund raising and listing by earlier stage companies, with particular attention given to companies developing green business or technologies.

## ONGOING OBLIGATIONS AND OTHER RELATED MATTERS

### *Backdoor Listings and Continuing Listing Criteria*

62. At the policy meetings in March, June and October 2017, the Department presented policy papers on proposals to amend the Rules relating to backdoor listings and continuing listing criteria. The Exchange has noted market concerns about the significant demand for shell companies for backdoor listings and consequently, the increase in “shell” activities, including shell “maintenance” and shell “creation” activities, resulting in certain listed issuers with small operations having disproportionate market capitalizations. In some cases, listed issuers carrying on minimal operations attempt to maintain their listing status by establishing new businesses that have a very low barrier of entry and/or can be easily established and discontinued without significant costs. This calls into question whether these listed issuers have a business of substance and are suitable for continued listing.
63. The Committee endorsed the Department’s robust approach to address “shell” maintenance or manufacturing activities by applying Rule 13.24 to listed issuers that did not carry out a sufficient level of operations, or have assets of sufficient value to warrant their continued listing<sup>17</sup>. The Exchange also exercised its discretion under Rule 2.04 to prevent an issuer’s attempt to circumvent the reverse takeover (“RTO”) Rules through a series of arrangements designed to achieve a listing of a new business acquired by the issuer, and circumvent initial listing requirements. The Exchange decided to impose additional conditions by requiring the issuer to comply with the RTO Rules<sup>18</sup>.
64. At the October 2017 policy meeting, the Department updated the Committee on the development on the review of the current application of Rule 13.24 and presented to the Committee a draft consultation paper on continuing listing criteria and a draft guidance letter that set out circumstances where the Exchange may bring a listed issuer’s suitability for continued listing into question. The Department is working with the sub-committee on backdoor listing formed in 2016 to address the Committee’s and the SFC’s comments and to fine-tune the proposals on backdoor listing. The Exchange will consult the market on those proposals in 2018 and would encourage all stakeholders to respond to this paper.

### *Listed Issuers subject to Negative Market Commentaries*

65. In August 2017, the Department presented an information paper relating to short sellers or research firms’ reports (collectively referred to as “negative market commentaries”) against listed issuers in recent periods. The Committee noted that the major allegations against listed issuers that were subjects of the reports included overstatement of earnings, undisclosed related party transactions, and in some recent cases allegations about share price manipulation activities and possible financial difficulties (as indicated by share pledges by listed issuers’ controlling shareholders). These listed issuers shared certain common characteristics, such as significantly higher earnings than industry peers and unexplained exceptionally high growth in recent financial periods.

<sup>17</sup> See Listing Decisions (HKEX-LD105-2017, HKEX-LD115-2017 and HKEX-LD116-2017) published in 2017.

<sup>18</sup> See Listing Decision (HKEX-LD113-2017). In that case, the issuer proposed to dispose of its original principal business after it had acquired a new business, which together would result in a complete change in the issuer’s principal business within two years from its initial listing. The Exchange considered that the proposed disposal, together with the acquisitions and other arrangements, was an attempt to achieve listing of the new business acquired and to circumvent initial listing requirements.



66. The Exchange issued Guidance Letter ([HKEX-GL87-16](#)) in April 2016 reminding listed issuers to promptly clarify market rumours to address possible development of a false or disorderly market in their securities, and take steps to minimise trading suspension. The Committee noted the listed issuers' actions in handling negative market commentaries were generally in line with the Guidance Letter and the suspension period of the affected listed issuers decreased substantially<sup>19</sup>.
67. The Committee supported the Department's recommendation to continue to monitor the area of negative market commentaries.

### ***New Auditors' Report and Key Audit Matters***

68. At the June 2017 policy meeting, the Department invited the Committee to consider whether key audit matters ("KAMs") (which are applicable to audit reports of annual financial statements) should be extended to certain other types of documents.
69. The Committee endorsed the Department's recommendation that the Exchange should not for the time being mandate disclosing/reporting KAMs by making changes to the Rules in relation to (a) issuers' preliminary annual results announcements; and (b) accountants' report in prospectuses. The Department should keep the matter under review by monitoring international developments.

### ***Proposed Measures to Address Scenarios not Covered in the Financial Institutions (Resolution) Ordinance ("FIRO") in relation to Suspension of Disclosure Obligations and Dealings in Securities***

70. Under the FIRO, the SFC, the Monetary Authority and the Insurance Authority are resolution authorities vested with powers to effect the orderly resolution of a non-viable systemically important entity in their respective sector for the purpose of maintaining financial stability, while seeking to protect public funds. Part 9 of the FIRO provides for, amongst others, (a) the deferral or suspension of disclosure obligations under the Securities and Futures Ordinance and the Rules; and (b) suspension of dealings in securities of a "listed entity" under Part 9 of the FIRO.
71. At the October 2017 policy meeting, the Department presented a report to the Committee on the proposed measures to deal with issues relating to structured products and debt securities that are not currently covered in Part 9 of the FIRO. In particular, the Exchange is expected to exercise a general power to waive certain affected parties' compliance with relevant disclosure requirements under the Rules (the "General Waiver"), and SFC's prior consent is required. The Committee endorsed the proposals as set out in the Department's report.
72. In October 2017, the Department applied for, and the SFC granted, consent to the General Waiver. The Department also published a series of [Frequently Asked Questions relating to the FIRO and its impact](#) on 20 October 2017.

<sup>19</sup> The suspension period of affected listed issuers was, on average, six days for the cases in 2016 and 2017 (up to July), compared with 130 days in the period from 2011 to 2015.

# REGULAR BUSINESS

## LISTING APPLICATIONS

73. Statistics in relation to listing applications handled by the Listing Committee are set out in the tables below.

<b>Meetings at which listing applications were considered</b>	<b>2017</b>	<b>2016</b>
Meetings within the regular schedule	<b>41</b>	36
Specially convened meetings	<b>6</b>	7

  

<b>Listing applications considered by the Listing Committee</b>	<b>2017</b>	<b>2016</b>
Applications considered (Note 1)	<b>112</b>	92
Applications approved (Note 2)	<b>107</b>	90
Applications rejected	<b>3</b>	1
Decisions deferred pending further information	<b>2</b>	1

  

<b>Listing applications approved and/or listed by the Listing Committee</b>	<b>2017</b>	<b>2016</b>
Applications approved and listed in the year	<b>85</b>	74
Applications approved in previous year and listed in the year	<b>10</b>	7
Applications listed in the year	<b>95</b>	81

Notes:

- 1 2017 includes one (2016: three) very substantial acquisition treated as a new listing application.
- 2 2017 includes six (2016: seven) applications approved at the second hearing and one (2016: nil) application approved at the third hearing.

## CANCELLATION OF LISTING

74. Statistics in relation to delisting matters considered at the Listing Committee's regular meetings are set out below:

Nature of decision (Note 1)	Number of cases	
	2017	2016
<b>Main Board</b>		
Listed issuers to be placed into third stage of delisting procedures		
– After rejecting resumption proposal as not viable (Note 2)	2	4
– Without submitting resumption proposal	3	8
– Without submitting new listing application for resumption proposal involved reverse takeover	–	1
Listings to be cancelled		
– After rejecting resumption proposal as not viable (Note 3)	3	1
– Without submitting resumption proposal (Note 4)	3	1
Listed issuer to be given notice of intention to delist under Rule 6.10 (Note 5)	4	2
Trading to be resumed	1	2
<b>GEM</b>		
Listed issuer to be given notice of intention to delist under GEM Rule 9.14 (Note 6)	5	–
Listings to be cancelled		
– After resumption proposal rejected as not viable (Note 7)	–	1
– Without submitting resumption proposal	1	–
– Without submitting new listing application for resumption proposal involved reverse takeover (Note 8)	–	1

### Notes:

- 1 Unless otherwise indicated these decisions were not appealed.
- 2 Two decisions in 2017 were appealed. One decision was upheld by the Listing Committee and the Listing (Review) Committee, and the review of the other decision is in progress. Three decisions in 2016 were appealed and were upheld by the Listing Committee and the Listing (Review) Committee.
- 3 Three decisions in 2017 were appealed. One decision was upheld by the Listing Committee, and the review of another decision is in progress. For the remaining decision, the Listing (Review) Committee decided to set aside the cancellation of listing to enable the company to proceed with implementing its resumption proposal. The decision in 2016 was appealed and the Listing (Review) Committee decided to conditionally stay the cancellation of listing and allow additional time for the company to submit all the relevant information in relation to the resumption proposal.
- 4 One decision in 2017 was appealed and the review is in progress.
- 5 Three decisions in 2017 were appealed and the reviews are in progress. One decision in 2016 was appealed and upheld by the Listing Committee and the Listing (Review) Committee.
- 6 Four decisions in 2017 were appealed and the reviews are in progress.
- 7 The decision was appealed and upheld by the GEM Listing (Review) Committee and the Listing Appeals Committee.
- 8 The decision was appealed and upheld by the GEM Listing (Review) Committee and the Listing Appeals Committee.

## OTHER MATTERS

75. An analysis of other matters considered at regular meetings during the year is set out below:

Nature of decision/advice sought	Number of cases	
	2017	2016
<b>Listing Application Requirements</b>		
– Requests for pre-application guidance from potential IPO applicants	5	8
– Guidance on GEM listing applications	8	13
– Conditional approval for placings to a connected client of a sponsor	–	1
<b>Ongoing Obligations</b>		
– Approval of voluntary withdrawal of listing (Note 1)	32	19
– Guidance on whether a proposed transaction was an extreme very substantial acquisition	4	3
– Guidance on whether a listed issuer had sufficient operations or assets to warrant continued listing	7	–
– Extension of deadline in connection with a resumption proposal (Note 2)	8	3
– Consideration of individuals' suitability to be directors	1	1
– Approval of an issuer of structured products	1	1
– Consideration of spin off proposal	1	–
– Guidance on whether a listed issuer may implement its proposal to restore its public float	1	1
– Guidance on cash company Rule	–	2
– Guidance on reliance on controlling shareholder (Note 3)	–	2
– Guidance on issue of convertible securities	–	1
– Guidance on whether a proposed transaction was an RTO	–	1
– Waiver for a re-domicile proposal	–	1
– Consideration of issue about "person with substantial influence"	–	1

Notes:

1 2017 includes 14 ETFs and four investment products. 2016 includes 17 ETFs.

2 2017 includes two cases considered twice.

3 2016 includes one case considered twice.

# SERVICE STANDARDS

## LISTING APPLICATIONS

- 76. The service standard for IPO cases accepted for vetting was introduced in light of the new sponsor regulations that became effective in October 2013.
- 77. In 2017, the number of applications vetted reached a historical high, which was 18% higher than the number of applications vetted in 2016 and 62% higher than the five-year average from 2012 to 2016. As compared to December 2014, the end of the first full year that the new sponsor regime was implemented, the Department was actively vetting 256% more listing applications as at December 2017.
- 78. Due to the influx of IPO applications and the complexities of some cases, a longer time was required in vetting IPO applications in 2017. Nonetheless, the Department was able to issue first round comments within 25 business days from the date of receipt of the listing application for 76% of the applications in 2017. As a percentage of the number of applications received, 62% were presented to the relevant committee/group for approval in 2017, which is an increase from 55% in 2016.
- 79. The Exchange continues to look at ways to better accommodate the increasing number of listing applications and expedite vetting of complex listing applications to meet the service standard. The Exchange however will not jeopardise the quality of its vetting in order to meet the service standard. Going forward, the Department may issue subsequent rounds of comments prior to receiving the sponsor’s response (if such responses would not affect the Department’s comments) to further accelerate the vetting process.
- 80. The Exchange’s service standard for IPO cases accepted for vetting is summarised in the following table:

		Cases accepted for vetting from 1 January to 31 December 2017			
Action	Service standard	Number of business days taken			% of cases meeting service standard
		Average	Maximum	Minimum	
Issuance of the first round of comments	10 business days from the date of receipt of the listing application	22	38 (Note)	8	2

Note: It took the Department 38 business days to issue the first comment letter for two particular listing applications in light of complicated and novel issues encountered.

## MONITORING AND GUIDANCE ACTIONS

81. The following table summarises the Exchange's service standards for monitoring and guidance actions. It is the Exchange's objective to continue improving the transparency, quality, efficiency and predictability of its service.

Service for initial responses	Service standard	% of cases meeting service standard	
		2017	2016
Pre-vetting activities			
– Initial response to pre-vetted announcements	Same day	96%	98%
– Initial response to pre-vetted circulars (very substantial acquisition)	10 business days	100%	100%
– Initial response to pre-vetted circulars (other than very substantial acquisition)	5 business days	99%	99%
Issuers' enquiries (Note 1)			
– Initial response to issuer's enquiries	5 business days	97%	97%
Waiver applications (Note 2)			
– Initial response to waiver applications (other than application for delay in despatch of circular)	5 business days	99%	99%
Post-vetting activities			
– Initial response to post-vetted result announcements	5 business days	97%	96%
– Initial response to post-vetted announcements (other than results announcements)	1 business day	99%	99%

Notes:

- 1 In 2017, 426 written enquiries (2016: 468) on Rule interpretations and related matters were handled.
- 2 In 2017, 451 waiver applications (2016: 428) from strict compliance with requirements under the Rules were processed.

## DISCIPLINARY MATTERS

82. During 2017, a number of investigations arising from breaches of the Rules were completed by the Department. The average time for completion of an investigation (at which point in time the decision as to the level of regulatory action (if any) is made) was 8.7 months for cases in which investigation was completed in 2017 (8.2 months in 2016).
83. Where conduct of listed issuers and their directors is identified by the Department which gives rise to suspected breaches of the law, it is referred to the SFC and other law enforcement agencies (e.g. ICAC and the Commercial Crime Bureau of the Hong Kong Police) as appropriate. The Department liaises with them on an ongoing basis as a case proceeds and provides materials, including documents/information and witness statements (covering, among other things, technical advice on the application of the Rules), to support any prosecution which may be brought as a result. During 2017, the Department provided continuing support to the SFC and other law enforcement agencies by dealing with 55 requests for documents/information and providing nine witness statements (59 requests and six witness statements in 2016).
84. As in previous years, the Department has continued to focus its resources on pursuing the most blatant and serious breaches of the Rules with a view to utilizing its existing resources to the best regulatory effect. The Exchange's investigations will tend to be on cases where some form of public sanction will be sought against the listed issuer and/or directors. A more detailed explanation of the approach as well as the decision-making process for the enforcement of the Rules can be found in the updated Enforcement Policy Statement published on 17 February 2017 on the HKEX website.
85. On the same day, the Exchange also published the following revised themes which formed the basis of the Exchange's enforcement investigations during the year:
- (a) Directors' performance of fiduciary duties, in particular their exercise of care, skill and diligence required under the Rules;
  - (b) Financial reporting – delays, or internal controls and corporate governance issues;
  - (c) Inaccurate, incomplete and/or misleading disclosure in corporate communications;
  - (d) Failure to comply with procedural requirements in respect of notifiable/connected transactions;
  - (e) Repeated breaches of the Rules;
  - (f) Delayed trading resumption; and
  - (g) Failure of issuers and directors to cooperate with the Exchange's investigation.
86. 91% of the 86 investigations conducted during the year (including those which remained active as at 31 December 2017) involved one or more of the Enforcement Themes identified above. It should be noted, however, notwithstanding the themed approach to investigation and discipline, the Exchange will continue to pursue any other breaches of the Rules that may demonstrate sufficiently egregious conduct.

87. If disciplinary action is taken, the Exchange will follow the Disciplinary Procedures (effective since 13 September 2013) which are published on the HKEX website. In accordance with these procedures, eight disciplinary actions were brought in 2014, five in 2015, 11 in 2016 and 22 in 2017.
88. An analysis of the nature of the alleged breaches of the Rules considered by the Committee (whether in the disciplinary actions or by way of approved settlement) and concluded in the year is set out below.

Nature of alleged breach of the Rules	Meetings	Cases
Failure to obtain shareholder approval for connected transactions, major transactions or very substantial acquisitions (two of the four cases also involved directors' breach of duty of care, skill and diligence)	5	4
Misstatement or misleading information in announcements or listing documents (the case also involved directors' breach of duty of care, skill and diligence)	1	1
Failure to cooperate with an Exchange investigation	4	4
<b>Total</b>	<b>10</b>	<b>9</b>

89. For the purposes of the analysis in the preceding paragraph, cases involving more than one alleged breach of the Rules are classified according to the most serious allegation brought in that action.
90. Overall, 14 hearings (12 of which were first instance hearings, one settlement hearing and one review hearing) involving 12 cases took place during the year. Eight of those cases were concluded and the result has been published in 2017. Four of those cases remain active and the result had not yet been published as of 31 December 2017. 13 additional disciplinary actions are active but have not been heard as at the end of 2017, making 17 in total.
91. The breaches pursued in the nine disciplinary cases concluded in 2017 fall within the following Enforcement Themes: (a) breach of duty of care, skill and diligence by the subject directors<sup>20</sup>; (b) breach of procedural requirements in respect of notifiable or connected transactions<sup>21</sup>; (c) repeated breaches of the Rules<sup>22</sup>; and (d) failure to co-operate in the Exchange's investigations<sup>23</sup>.
92. An analysis of the outcome of the disciplinary actions concluded during the year (including one additional matter for which the hearing took place in November 2016 but the outcome of which was announced in 2017) is set out in the table below.

Outcome	Cases
Public Sanction	9
Private Sanction	0
No Sanction	0
<b>Total</b>	<b>9</b>

20 Enforcement Theme (a) - see paragraph 85 above.  
 21 Enforcement Theme (d) - see paragraph 85 above.  
 22 Enforcement Theme (e) - see paragraph 85 above.  
 23 Enforcement Theme (g) - see paragraph 85 above.



93. The range of sanctions available to the Committee under the existing enforcement regime is limited. The sanctions available are primarily shaming and reputational in character. The Exchange will issue a public sanction for more serious breaches of the Rules and take other non-public action as may be appropriate.
94. The collective and individual responsibility of directors for compliance remains a cornerstone of the current enforcement regime. Directors must give a personal undertaking to the Exchange to procure Rule compliance by listed issuers. This undertaking requires them to both ensure substantive compliance with the Rules and create the conditions for compliance. Where appropriate, actions have been taken against directors in accordance with the Enforcement Themes. The table below provides detail on the outcomes of both public and private sanctions against directors in disciplinary actions concluded in the year.

<b>Number of directors subject to sanctions</b>	<b>2017</b>	2016	2015
Executive directors	<b>17</b>	23	12
Non-executive directors	<b>4</b>	4	7
INEDs	<b>3</b>	5	12
<b>Total</b>	<b>24</b>	32	31

95. The 17 ongoing disciplinary actions, referred to in paragraph 90, concern a further 116 directors.
96. In addition to issuing public and private sanctions for breaches by listed issuers and their directors, the Committee has deployed its powers to require listed issuers and directors to take remedial action to rectify breaches of the Rules and improve corporate governance. Such directions have been, for example, imposed training requirements<sup>24</sup> and an obligation to retain external assistance to create an internal control function. The following table provides some information on the outcome of disciplinary cases the Committee has considered in this respect.

<b>Number of disciplinary or settlement cases resulting in</b>	<b>2017</b>	2016	2015
An "Internal Control Review" direction	<b>0</b>	0	1
A "Retention of Compliance Adviser" direction	<b>1</b>	3	1
A "Training of Directors" direction	<b>4</b>	4	3

97. A number of the cases considered by the Committee during the year once again illustrate the importance of directors having proper understanding of the requirements of the Rules to ensure that issuers can meet their compliance obligations. In addition, the Exchange continues to expect that directors to take responsibility for ensuring that listed issuers identify compliance risk and have appropriate systems and controls in place to mitigate these risks. Where deficiencies are uncovered, prompt remedial action is important.

<sup>24</sup> The Exchange has launched four director training webcasts covering a broad range of topics including but not limited to the duties of directors, risk management and internal control. For details of the directors training webcasts, please refer to paragraphs 44–47 of this report.

98. The Committee has also noted that the Department has continued to dispose of less serious cases earlier by, for example, warning, cautioning or deciding to take no action, if appropriate.
99. Disciplinary matters can also be disposed of by settlement as approved by the Committee. Provided the terms of the settlement represent a fair overall regulatory outcome and achieve the Exchange's regulatory objectives, the Committee continues to welcome the efforts made by market users and the Department to bring about the settlement and agreed disposal of disciplinary matters.
100. The Committee would again take this opportunity to remind directors that they have undertaken to co-operate with the Exchange by responding promptly to enquiries and attending meetings when required. Breach of these obligations may give rise to disciplinary action distinct from the substantive breaches of the Rules suspected; and is an Enforcement Theme<sup>25</sup>. Four disciplinary cases concluded in the year pursued a breach of this nature resulting in the imposition of a public sanction on four directors and others are being actively pursued.
101. To enhance the transparency of the Exchange's Rule enforcement work, a biannual Enforcement Newsletter has been launched (the first issue being published in July 2017) summarizing the news and updates on enforcement activities and highlighting specific areas or conduct that might impact on Rule compliance.
102. Looking ahead, the Exchange will continue to explore ways and means to make the disciplinary regime more effective and responsive to market needs and expectations.

25 Enforcement Theme (g) - see paragraph 85 above.

## REVIEW MEETINGS

103. The Listing Committee considered 26 (2016: 31) requests for reviews of decisions made by the Department or the Listing Committee during the year, some of which related to decisions that had been made in the previous year. The Listing Appeals Committee considered three (2016: two) requests for review. Details of these reviews are set out in the table below.

Appeal Committee	Decision made by	Nature of decision	Number of cases	Outcome as at 31 December 2017
Listing Appeals Committee	Listing (Review) Committee	Cancellation of listing	1	Upheld
	Listing (Review) Committee	Rejection of listing application	1	Overturned
	Listing Committee	Rejection of listing application	1	Upheld
Listing (Review) Committee	Listing Committee	Cancellation of listing	5	Upheld: 2 Overturned: 2 Stay the cancellation subject to conditions: 1
	Listing Committee	Rejection of listing application	3	Upheld
	Listing Committee	Placing a listed issuer into the third stage of delisting	3	Upheld
	Listing Committee	No clear delineation between the business of the issuer's parent and the business that the issuer proposed to spin off	1	Upheld
Listing Committee	Listing Department	Rejection of listing application	3	Upheld
	Listing Department	Placing a listed issuer into the third stage of delisting	3	Upheld

<b>Appeal Committee</b>	<b>Decision made by</b>	<b>Nature of decision</b>	<b>Number of cases</b>	<b>Outcome as at 31 December 2017</b>
	Listing Department	Considering a proposed acquisition as a reverse takeover	1	Upheld
	Listing Department	Placing a listed issuer into the first stage of delisting	1	Upheld
	Listing Department	Cancellation of listing	2	Upheld: 1 Overturned: 1
	Listing Department	Deeming certain individuals and entities as connected persons of listed issuers	3	Upheld
	Listing Department	Return of listing application	1	Upheld

104. As at 31 December 2017, there were eleven cases under review as follows:

<b>Appeal Committee</b>	<b>Decision made by</b>	<b>Nature of decision</b>	<b>Number of cases</b>
Listing Appeals Committee	Listing (Review) Committee	Cancellation of listing	2
Listing (Review) Committee	Listing Committee	Rejection of listing application	1
	Listing Committee	Placing a listed issuer into the first stage of delisting	1
Listing Committee	Listing Department	Placing a listed issuer into the third delisting stage	1
	Listing Department	Rejection of listing application	1
	Listing Department	Cancellation of listing	5

## POLICY AGENDA FOR 2018 AND BEYOND

105. Highlighted below are those matters the Exchange currently plans to consider during 2018 and beyond:

### ***Prospectuses and listing process***

- Consultation Paper on a Listing Regime for Companies from Emerging and Innovative Sectors
- A Review of the Quality and Performance of Newly Listed Issuers
- A Review of the Pricing Flexibility of IPOs upon Conclusion of the Pilot Period
- A Review of the Chapter 37 Debt Issues Regime for Professional Investor Only

### ***Listing matters***

- Consultation Conclusions on Review of the Corporate Governance Code and Related Listing Rules
- ESG Implementation Review

### ***Ongoing obligations and other related matters***

- Consultation Conclusions on Capital Raisings by Listed Issuers Proposals
- Consultation Conclusions on Delisting and other Rule Amendment Proposals
- Consultation Conclusions for Proposed Exemption for Aircraft Leasing Activities
- Consultation Conclusions on Proposed Changes to Documentary Requirements Relating to Listed Issuers and Other Minor Rule Amendment Proposals
- Consultation Paper on Backdoor Listing and Continued Listing Criteria
- Codification of Guidance Letters/General Waivers<sup>26</sup>
- Rule Changes Resulting from Auditors Regulatory Reform

26 The Exchange is conducting a review in identifying whether certain new listing and post-listing listing decisions, guidance letters and interpretative letters can be consolidated or codified. The consolidation exercise will be carried out in phases. The Exchange intends to discuss its proposals on this exercise with the SFC in 2018.

# APPENDIX 1 COMPOSITION, ROLE AND OPERATIONS OF LISTING COMMITTEE

## MEMBERS AS AT 31 DECEMBER 2017

### **Chairman**

WEIR Andrew Walter Bougourd Ross

### **Deputy Chairmen**

BRIEN Peter Wilhelm Hubert

HO Chi On, John

### **Ex officio member**

LI Xiaojia, Charles

### **Other members (in alphabetical order)**

BROWN Stephen James

CASSIDY Dennis

CHAN Chiu Kong, Edmond

CHAN Wai Yan, Ronald

CHAN Yuen Shan, Clara

CHARLTON Julia Frances

CHAU Paul

CLARK Stephen John

GOODING Nial Dennis Henry

HO Yvonne

LAU Pak Wai, David

MA Sean

MAGUIRE John Martin

POGSON Keith Timothy

ROBERTS Donald Jeffrey

SWIFT Daniel Joseph

TRACY Alexandra Boakes

TYE Philip Andrew

VAN RIJN Arnout

WOLHARDT Julian Juul

YEUNG Eirene

YIEN Yu Yu, Catherine

YIH Lai Tak, Dieter

ZEE Helen

## COMPOSITION OF LISTING COMMITTEE

1. The Listing Committee consists of 28 members (or such greater number that the board of the Exchange shall agree) as follows:
  - (a) At least eight individuals whom the Listing Nominating Committee (“LNC”) considers will represent the interests of investors;
  - (b) 19 individuals whom the LNC considers will represent a suitable balance of representatives of listed issuers and market practitioners, including lawyers, accountants, corporate finance advisers, and Exchange Participants or officers of Exchange Participants; and
  - (c) The Chief Executive of HKEX as an ex-officio non-voting member<sup>27</sup>.
2. The Listing Committee has no staff and no budget. With effect from 11 July 2014 a fixed annual fee of \$100,000 is offered for regular Committee members, \$125,000 for the Deputy Chairmen and \$150,000 for the Chairman on account of attendance at and preparation for regular, policy, disciplinary and review meetings. Prior to this, members were offered a fixed annual fee of HK\$80,000.

## ROLE OF LISTING COMMITTEE

3. The Listing Committee acts both as an independent administrative decision maker and an advisory body for the Exchange. It has four principal functions:
  - (a) To oversee the Department (to the extent practicable given the Committee’s mode of operation);
  - (b) To provide policy advice to the Department on listing matters and to approve amendments to the Main Board Rules and GEM Rules;
  - (c) To take decisions of material significance for listing applicants, listed issuers and the individuals concerned. These include approvals of listing applications and cancellations of listing and disciplinary matters; and
  - (d) To act as a review body (in its role as the Listing (Review) Committee) for decisions made by the Department and by the Listing Committee.
4. The Listing Liaison Forum (“LLF”) provides a monthly forum for operational matters to be raised by the Chairman and Deputy Chairmen with the Chief Executive and the Head of Listing (and vice versa). This is part of the oversight of the Department by the Listing Committee. The LLF is not a forum for discussing substantive policy matters. In addition, on a semi-annual basis, the Committee’s Chairman and two Deputy Chairmen and Head of Listing attend a meeting of the HKEX Board to communicate with the HKEX Board on the operation of the Department and the Listing Committee.

<sup>27</sup> The Chief Executive of HKEX attends Listing Committee meetings as a non-voting member representing the HKEX’s board only where listing policy matters are discussed, and does not attend Listing Committee meetings on individual cases.

5. As mentioned in the Joint Consultation Conclusions (see paragraphs 2 to 5 of the report), a new Listing Policy Panel will be established as an advisory, consultative and steering body outside the SFC and the Exchange to centralise discussion of listing policies with broader regulatory or market implications. The Listing Policy Panel will comprise the Chairman and Deputy Chairmen of the Listing Committee, as well as representatives from HKEX, the SFC and the Takeovers Panel. The Chairman and Deputy Chairmen of the Listing Committee will represent the views of the Listing Committee (including any differing views among the Listing Committee members) at Listing Policy Panel meetings. The authority and powers delegated by the Exchange's board to the Listing Committee will remain unchanged.
6. A more detailed description of the role and mode of operation of the Listing Committee and its approach to handling conflicts of interest is set out on the HKEX website.

## OPERATIONS OF LISTING COMMITTEE

7. One of the principal items of business of the Listing Committee's regular meetings is considering whether or not to approve new listing applications for the Main Board. Applications for listing on GEM are considered by the Department, with applicants retaining a right of appeal to the Listing Committee. The Department may reject a Main Board listing application, but the power to approve such listing applications rests with the Listing Committee. Listing applications are considered on the basis of reports from the Department, which include a recommendation on whether or not to approve the application. In respect of each application considered by the Committee, it may approve the application, with or without the imposition of conditions, reject the application or defer a decision pending the submission of further information.
8. The power to approve the cancellation of listing of securities ("delisting") rests with the Listing Committee. Main Board issuers may be delisted under the three-stage process set out in Practice Note 17 of the Rules. They may also be delisted under Chapter 6 of the Main Board Rules. GEM Rules 9.14 to 9.18 deal with the delisting of GEM listed issuers.
9. The Listing Committee's approval is required to place a Main Board issuer in the third stage of the delisting procedures under Practice Note 17 of the Rules, to give a Main Board or GEM issuer notice of the Exchange's intention to delist the issuer, or to cancel the listing of a Main Board or GEM issuer. The Listing Committee's decision to delist a Main Board or GEM issuer may be subject to review by the Listing (Review) Committee and, in turn, the Listing Appeals Committee.
10. At each regular meeting, the Department provides the Listing Committee with information on listed issuers whose shares have been suspended from trading since the last regular meeting of the Listing Committee. Each month, the Listing Committee receives an information paper on listed issuers whose shares have been suspended for a prolonged period. This forms the basis for a monthly update that is published on the HKEX website in respect of long suspended listed issuers.
11. Policy matters are generally dealt with at policy meetings of the Listing Committee as this helps to ensure broad participation from the Listing Committee membership. The Listing Committee aims to hold policy meetings on a quarterly basis. Nonetheless it is sometimes necessary for issues to be considered at regular meetings of the Committee. These items are normally in the nature of reporting back on minor revisions to policy previously agreed at quarterly policy meetings or amendments to the Rules which have previously been approved at quarterly policy meetings that are minor in nature but which, nonetheless, require the Listing Committee's approval.



12. Disciplinary matters are generally dealt with at specially convened meetings of the Listing Committee. For contested disciplinary actions, written representations are central to the process. A typical case will involve one round of written submissions from the Department and from those alleged to have breached the Rules (the listed issuer and/or its directors), with the Chairman having flexibility to allow additional submissions where it is considered appropriate. At the hearing, the Department and those against whom action is being brought are permitted to make oral representations to supplement their written submissions and Listing Committee members may ask questions of any party or its legal representative present at the meeting. The parties may thereafter make closing submissions.
13. For agreed disposals of disciplinary matters, a settlement proposal as agreed between the Department and the relevant parties is tabled before the Listing Committee at a meeting for the Committee to consider and, where appropriate, to endorse. All settlements are subject to the Committee's approval. For transparency and procedural fairness purposes, all the parties to the disciplinary action are invited to appear before the Committee to address any concerns which the Committee may have in respect of the settlement proposal, and the Committee may also ask questions of the parties present regarding the proposed settlement.

## APPENDIX 2 POLICY DEVELOPMENT

### MATTERS CONSIDERED DURING THE YEAR

The table below summarises the policy matters considered at the Listing Committee's policy and regular meetings during the year.

<b>Date</b>	<b>Items</b>
<b>12 January 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"><li>- Approval of publication of Joint Statement regarding the Price Volatility of GEM stocks</li></ul>
<b>19 January 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"><li>- Update/briefing on review of disclosure in issuers' annual reports to monitor Rule compliance</li></ul>
<b>16 February 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"><li>- Approval of the Listing Committee Report 2016</li><li>- Update/briefing on:<ul style="list-style-type: none"><li>• GEM applications handled by the Department for the six months ended 30 September 2016</li><li>• Policy Initiatives relating to (a) Review of Placing Guidelines and (b) Shortening IPO Settlement Cycle</li></ul></li></ul>
<b>20 March 2017</b> <b>Policy meeting</b>	<ul style="list-style-type: none"><li>- Update/briefing on:<ul style="list-style-type: none"><li>• GEM Consultation Paper</li><li>• Backdoor Listing and Continued Listing Criteria</li><li>• Capital Raisings by Listed Issuers</li><li>• Corporate Governance Issues</li><li>• Mandatory e-filing</li><li>• Analysis of GEM Vetting Time</li></ul></li><li>- Approval of publication of Delisting Consultation Paper</li></ul>
<b>11 May 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"><li>- Update/briefing on Performance and Quality of Issuers Listed in 2015 and 2016</li><li>- Approval of publication of GEM Consultation Paper</li></ul>
<b>12 June 2017</b> <b>Policy meeting</b>	<ul style="list-style-type: none"><li>- Update/briefing on:<ul style="list-style-type: none"><li>• Capital Raisings Consultation Paper</li><li>• Professional Debt Listing Regime</li><li>• Listing of Green Bonds</li><li>• Financial Services Development Council's recommendations on the Listed Structured Products Market</li><li>• Pricing Flexibility for Initial Public Offerings</li><li>• Continuing Listing Criteria</li><li>• Establishment of Communist Party committees in listed State Owned Enterprises</li><li>• New Auditors' Report and KAMs – Whether KAMs Should Be Extended to Issuers' Preliminary Annual Results Announcements and Accountants' Report in Listing Applicants' Prospectuses</li></ul></li><li>- Review of Listing Document Simplification Guide</li></ul>

<b>Date</b>	<b>Items</b>
<b>29 June 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"> <li>- Update/briefing on Financial Statements Review Programme</li> </ul>
<b>20 July 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"> <li>- Update/briefing on Ownership Continuity and Control Requirement</li> </ul>
<b>10 August 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"> <li>- Review of Listing Document Simplification Guide</li> </ul>
<b>17 August 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"> <li>- Approval of publication of Capital Raisings Consultation Paper</li> <li>- Update/briefing on Short Sellers' Reports</li> </ul>
<b>14 September 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"> <li>- Update/briefing on the Joint Consultation Paper on the Governance Structure for Listing Regulation</li> </ul>
<b>9 October 2017</b> <b>Policy meeting</b>	<ul style="list-style-type: none"> <li>- Approval of publication of: <ul style="list-style-type: none"> <li>• Consultation Conclusions on the Review of GEM and Changes to the GEM and Main Board Listing Rules</li> <li>• Consultation Paper on Proposed Exemption for Aircraft Leasing Activities</li> <li>• Consultation Paper on Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments</li> <li>• Corporate Governance Consultation Paper</li> </ul> </li> <li>- Update/briefing on: <ul style="list-style-type: none"> <li>• GEM applications handled by the Department for the six months ended 31 March 2017</li> <li>• Proposed Measures to Address Scenarios not Covered in the Financial Institutions (Resolution) Ordinance in relation to Suspension of Disclosure Obligations and Dealings in Securities</li> <li>• Continuing Listing Criteria and Suitability for Listing</li> <li>• Corporate Governance Implementation Review December Year-end 2016</li> </ul> </li> <li>- Review of: <ul style="list-style-type: none"> <li>• Reallocation Mechanism of Shares between the Public Subscription Tranche and the Placing Tranche</li> <li>• Regulatory Approach to Potential Shell Companies under Suitability Guidance Letter (HKEX-GL68-13A)</li> </ul> </li> </ul>
<b>9 November 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"> <li>- Update/briefing on: <ul style="list-style-type: none"> <li>• Consultation Paper on Proposed Exemption for Aircraft Leasing Activities</li> <li>• Consultation Conclusions on the Review of GEM and Changes to the GEM and Main Board Listing Rules</li> </ul> </li> </ul>
<b>30 November 2017</b> <b>Regular meeting</b>	<ul style="list-style-type: none"> <li>- Update/briefing on Proposed Way Forward for Attracting New Economy Companies</li> </ul>

## APPENDIX 3 MEETING STATISTICS

The following meetings were held during the period covered by this report and in the preceding period:

Nature of meeting	Number of meetings		Average number of members in attendance	
	2017	2016	2017	2016
Regular Meetings:				
– With regular business only	41	32	12.1	15.6
– With policy items	12	19	18.8	18.5
<b>Total</b>	<b>53</b>	<b>51</b>	<b>16.2</b>	<b>16.7</b>
Review Meetings (*excluding reviews by Listing Appeals Committee)	26	31	6.7	7.4
Disciplinary Meetings	14	8	7.3	6.9
Quarterly and ad hoc policy meetings	3	3	26.7	24
<b>Total</b>	<b>96</b>	<b>93</b>		

Details of members' attendance at meetings are set out in Appendix 4.

## APPENDIX 4 ATTENDANCE AT MEETINGS

NATURE OF MEETING (Note 1)								
Members	Regular		Policy		Disciplinary		Review	
	Attended/ Pooled	%	Attended/ Eligible	%	Attended/ Eligible	%	Attended/ Eligible	%
<b>In office all year</b>								
Mr Andrew Weir (Notes 2 & 10)	46/41	112	3/3	100	1/6	17	5/7	71
Mr John Ho (Note 10)	27/52	52	3/3	100	3/13	23	6/16	38
Mr Peter Brien (Notes 3 & 10)	34/42	81	3/3	100	5/11	45	7/10	70
Mr Charles Li (Note 4)	n/a	n/a	3/3	100	n/a	n/a	n/a	n/a
Mr Stephen Brown (Note 5)	33/40	83	1/3	33	6/11	55	6/9	67
Mr Dennis Cassidy	30/29	103	2/3	67	3/8	38	4/10	40
Mr Edmond Chan	38/29	131	3/3	100	6/6	100	7/7	100
Mr Ronald Chan	26/30	87	3/3	100	2/8	25	7/15	47
Ms Clara Chan	30/30	100	3/3	100	3/8	38	10/14	71
Ms Julia Charlton	37/29	128	3/3	100	5/8	63	7/14	50
Mr Paul Chau	32/30	107	3/3	100	4/6	67	8/10	80
Mr Stephen Clark	28/30	93	3/3	100	5/5	100	6/8	75
Mr Nial Gooding	35/30	117	3/3	100	5/7	71	11/15	73
Ms Yvonne Ho	34/31	110	3/3	100	5/8	63	6/10	60
Mr Keith Pogson	38/30	127	3/3	100	1/7	14	6/9	67
Mr John Maguire	30/31	97	3/3	100	4/9	44	7/10	70
Mr Arnout Van Rijn	29/29	100	3/3	100	6/9	67	4/16	25
Mr Donald Roberts	32/30	107	3/3	100	7/8	88	7/16	44
Mr Daniel Swift	21/29	72	2/3	67	0/7	0	1/18	6
Mrs Alexandra Tracy	37/29	128	3/3	100	5/6	83	7/13	54
Mr Philip Tye	36/30	120	3/3	100	4/8	50	11/11	100
Ms Eirene Yeung	21/29	72	3/3	100	0/7	0	3/22	14
Ms Catherine Yien	34/31	110	3/3	100	6/8	75	7/13	54
Mr Dieter Yih	29/30	97	3/3	100	3/6	50	9/18	50
Ms Helen Zee	25/29	86	3/3	100	3/8	38	10/18	56
<b>Appointed this year (Note 6)</b>								
Mr David Lau	17/16	106	1/1	100	4/4	100	3/5	60
Mr Sean Ma	11/16	69	1/1	100	2/5	40	1/8	13
Mr Julian Wolhardt	12/17	71	1/1	100	0/5	0	3/9	33
<b>Retired this year (Note 7)</b>								
Mr Stephen Taylor (Note 8)	18/24	75	2/2	100	2/2	100	1/2	50
Mr Kevin Chan	20/14	143	2/2	100	1/1	100	3/3	100
Mr Eric Chow	16/13	123	2/2	100	1/3	33	6/9	67

Notes:

- 1 This year, in addition to these meetings, Listing Committee members also attended sub-committee meetings on particular policy matters and officiated 174 listing ceremonies.
- 2 Mr Andrew Weir was appointed Chairman of the Listing Committee on 7 July 2017. Mr Weir was pooled for every regular meeting held after that date.
- 3 Mr Peter Brien was appointed Deputy Chairman of the Listing Committee on 7 July 2017. Mr Brien was pooled for every regular meeting held after that date.
- 4 The Joint Consultation, published in June 2016, proposed that the HKEX Chief Executive cease to be a member of the Listing Committee and instead become a member of the Listing Policy Committee. The Joint Consultation Conclusions, published in September 2017, stated that the HKEX Chief Executive would attend Committee meetings as a non-voting member representing the HKEX's board only where listing policy matters were discussed, and would not attend Listing Committee meetings on individual cases. In light of such proposal and the Joint Consultation Conclusions, Mr Charles Li limited his attendance to only policy meetings.
- 5 Mr Stephen Brown retired as Deputy Chairman of the Listing Committee on 7 July 2017. Mr Brown was pooled for every regular meeting held up to that date.
- 6 Members were appointed on 7 July 2017.
- 7 Members retired on 7 July 2017.
- 8 Mr Stephen Taylor retired as Chairman of the Listing Committee on 7 July 2017. Mr Taylor was pooled for every regular meeting held up to that date.
- 9 For policy meetings and regular meetings at which policy matters were discussed, attendance includes participation by telephone.
- 10 Percentage attendance at regular meetings is calculated based on actual attendance and the number of meetings that the member was pooled for (i.e. scheduled to attend) during the year in accordance with a pooling schedule. The Chairman and Deputy Chairmen are pooled to attend all regular meetings. Other members are pooled to attend approximately half of the regularly scheduled meetings. In all cases the number of meetings that a member is pooled for will be reduced by one if:
  - A meeting that the member is pooled for is cancelled; or
  - The member is conflicted on all substantive matters to be considered at a meeting that the member is pooled for.
- 11 Percentage attendance at review and disciplinary meetings is based on the number of meetings a member was eligible to attend having regard to potential conflicts of interest and whether the member had attended the meeting reaching the decision that was being reviewed. Members' unavailability due to other commitments on a scheduled date has not been taken into account in the table above. Unlike regular meetings that are scheduled on the same day and at the same time every week, review and disciplinary meetings are scheduled on an ad hoc basis. Therefore, conflicts with members' other commitments are more likely as it is not possible for members to block out a regular time in their diaries to attend these meetings. Also, some review and disciplinary meetings have to be scheduled on short notice due to their nature. The Chief Executive does not participate in review and disciplinary meetings.

Hong Kong Exchanges and Clearing Limited  
12/F, One International Finance Centre  
1 Harbour View Street, Central, Hong Kong

[info@hkex.com.hk](mailto:info@hkex.com.hk)  
t: +852 2522 1122 f: +852 2295 3106  
[hkexgroup.com](http://hkexgroup.com) | [hkex.com.hk](http://hkex.com.hk)