

HKEX LISTING DECISION

HKEX-LD43-3 (~~Published in~~ First Quarter of 2005) (~~Updated,~~ updated in November 2011, August ~~2012~~, November ~~2012~~, and December 2012, November 2013, April 2014, August 2015, and April 2018)

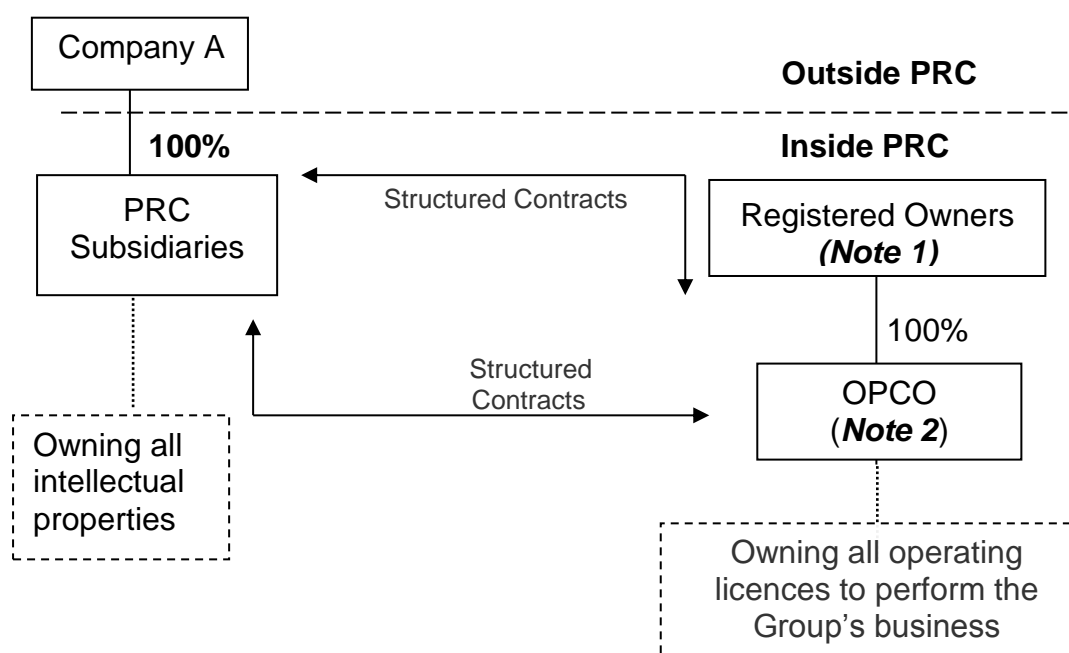
[Updated to clarify, among other things, the requirements related to foreign ownership restriction in paragraphs 16A to 17, and the Draft FIL (defined below) in paragraphs 21 to 28]

Summary	
Name of Parties	Company A – a Main Board listing applicant Group – Company A together with its subsidiaries PRC Subsidiaries – subsidiaries of Company A with substantially all operations in the PRC OPCOs – companies owned by the Registered Owners and controlled by Company A through the Contractual Arrangements Registered Owners – shareholders of the OPCOs
Subject	Whether, in view of the fact that, in the conduct of its business in the PRC, Company A was a party to a number of contract-based structures (“ Contractual Arrangements ” or “ Structured Contracts ”) between or among Company A, the PRC Subsidiaries, the OPCOs and the Registered Owners, Company A was unsuitable for listing due to legal questions associated with the Contractual Arrangements?
Listing Rules	Rules 1.01 and 8.04
Decision	The Exchange determined that the Contractual Arrangements would not render Company A unsuitable for listing.

SUMMARY OF FACTS

1. Company A was incorporated outside Hong Kong. The Group operated a business in the PRC, and PRC regulations applicable to its industry sector limited foreign investment.
2. Therefore, the Group did not possess the licences required to operate its business in the PRC. However, the Group adopted Contractual Arrangements designed to give the various rights listed in paragraph 4. The Contractual Arrangements were binding on Company A, the PRC Subsidiaries, the OPCOs and the Registered Owners.

3. A brief diagram illustrating the Contractual Arrangements is set out below:-



Note 1: *The Registered Owners were PRC nationals and controlling shareholders of Company A*

Note 2: *The OPCO was incorporated in the PRC*

4. The Sponsor submitted that the Contractual Arrangements were designed specifically to confer upon the Group:-

- a. the right to enjoy all the economic benefit of the OPCOs, to exercise management control over the operations of the OPCOs, and to prevent leakages of assets and values to shareholders of the OPCOs;
- b. the right to all intellectual properties through assignments from the OPCOs;
- c. the right to consolidate the financial results of the OPCOs as if they were wholly-owned subsidiaries of the Group under prevailing accounting principles;
- d. the right to acquire, if and when permitted by PRC law, the equity interests in and/ or assets of the OPCOs for a nominal price or a pre-paid amount; and
- e. a first priority security interest in the OPCO shares owned by the Registered Owners, as security for the proper performance of the Contractual Arrangements.

5. The Sponsor confirmed that Company A had satisfied all conditions for listing under the Listing Rules (save for waivers sought) and no alteration of the confirmation was necessary by reason of the existence of the Contractual Arrangements. The Sponsor intended to disclose full details of the Contractual Arrangements in the

listing document.

6. The PRC legal adviser of Company A issued an opinion that the Contractual Arrangements complied with PRC laws, rules and regulations, including those applicable to the business of Company A, the PRC Subsidiaries and the OPCOs, and complied with the articles of association of the PRC Subsidiaries.
7. The reporting accountants of Company A confirmed that it had the right to consolidate the financial results of the OPCOs as if they were wholly-owned subsidiaries of the Group under prevailing accounting principles.

THE ISSUE RAISED FOR CONSIDERATION

8. Whether, in view of the fact that, in the conduct of its business in the PRC, Company A was a party to the Contractual Arrangements between or among Company A, the PRC Subsidiaries, the OPCOs and the Registered Owners, Company A was unsuitable for listing due to legal questions associated with the Contractual Arrangements?

APPLICABLE LISTING RULES OR PRINCIPLE

9. Rule 1.01 states that 'subsidiary' includes 'any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to applicable Hong Kong Financial Reporting Standards or International Financial Reporting ~~Standards~~Standards'.
10. Rule 8.04 provides that in the opinion of the Exchange both the issuer and its business must be suitable for listing.

THE ANALYSIS

11. When considering Company A's suitability for listing under Rule 8.04, the Exchange reviewed whether the Group's business operations, including the use of the Contractual Arrangements, complied with all applicable laws and regulations.
12. In the review, the Exchange continued its established practice of ~~utilizing~~utilising a disclosure-based approach. Under this approach, the sponsor and the directors of Company A had to demonstrate, by a clear preponderance of the materials submitted for review, that it had complied in fact and in good faith with all relevant PRC laws and regulations. If Company A could meet this burden it would not be ~~considered~~treated as unsuitable for listing on the Exchange by reason of the Contractual Arrangements.
13. In this case, the Exchange adopted the following standard of review:-
 - a. the Listing Rules and Listing Department policies would be strictly construed;
 - b. the Contractual Arrangements should be narrowly tailored to achieve the listing applicant's business purposes and ~~minimize~~minimise the potential for conflict with relevant PRC laws and regulations. Wherever possible, the listing applicant

would be required to demonstrate genuine efforts to comply with applicable laws and regulations. Evidence to the contrary would ~~tend to~~ indicate a higher risk of the ~~contractual arrangements~~ Contractual Arrangements being ~~considered non-compliant with~~ deemed in breach of relevant laws and regulations;

- c. a broad review of all relevant facts and circumstances concerning the listing applicant would be undertaken by the Exchange, including a review of its legal and compliance history (if any), its management systems and corporate governance practices, its records in protecting shareholder interests and its financial resources to ensure compliance with the applicable laws and regulations. If material uncertainties were identified in the areas of the listing applicant's business, a higher level of assurance with respect to the arrangements would be required; and
- d. subject to availability and practicability, appropriate regulatory assurance should be obtained from the relevant regulatory authorities. In the absence of such regulatory assurance, the listing applicant's legal ~~counsel~~ adviser would be required to make a statement to the effect that in its legal opinion all possible actions or steps taken to enable it to reach its legal conclusions had been taken. In consultation with the listing applicant and the sponsor, other relevant forms of assurance could be considered.

14. Based on the submissions of the Sponsor which were supported by professional opinions from the PRC legal advisers and the reporting accountants, Company A had demonstrated that it had satisfied the above requirements. Consequently, the Exchange determined that the Contractual Arrangements were legal and binding and that Company A had the ability to ensure the sound and proper operation of the Contractual Arrangements. Given that there would be full disclosure of the Contractual Arrangements in the listing document, the Exchange determined that Company A or its business would not be rendered unsuitable for listing by reason of the use of the Contractual Arrangements.

THE DECISION

15. The Exchange continued to adopt a disclosure-based approach in considering Company A's listing application. Based on the material facts and the PRC legal opinion as submitted, the Exchange determined that Company A had demonstrated the legality of the Contractual Arrangements and its ability to ensure the sound and proper operation of the Contractual Arrangements. Subject to appropriate disclosures in the listing document of the Contractual Arrangements and the risks associated therewith, the Exchange determined that Company A was suitable for listing.

~~SUBSEQUENT DEVELOPMENT (Paragraphs 16 to 18 added in November 2011; paragraphs 19 to 20 added in August 2012 and amended in November 2012 and December 2012; paragraphs 16A and 18A added in November 2013; paragraphs 18, 19 and 20 amended in November 2013; paragraph 16B added in April 2014; paragraphs 18c(i) and 20a updated in August 2015; and paragraphs 21 and 22 added in August 2015)~~

SUBSEQUENT DEVELOPMENT

16. In a review in 2011, the Listing Committee confirmed the practice of allowing Contractual Arrangements (also commonly known as ~~Structured Contracts~~ structured contracts or VIEs) on a case-by-case basis after full consideration of the reasons for adopting such arrangements and subject to the conditions in this listing decision. (Added in November 2011).
- 16A. ~~For the avoidance of doubts, where restricted businesses are involved, the use of Structured Contracts are permitted only to address the foreign ownership restriction, e.g. foreign investors can only operate the restricted businesses under joint ventures with the foreign portion of the total investment and hence shareholding below 50%. For requirements other than the foreign ownership restriction (the “Other Requirements”), applicants should demonstrate to the satisfaction of the Exchange that they have, upon advice from their legal advisers, reasonably assessed the requirements under all applicable rules and have taken all reasonable steps to comply with them before listing (Added in November 2013).~~
- 16B. ~~All listing applicants without exception (including applicants transferring its listing from the Growth Enterprise Market (GEM) to the Main Board), must take reasonable steps to comply with the Other Requirements before listing, narrowly tailor their Contractual Arrangements regardless of materiality of the business on which the Other Requirements are imposed, in terms of revenue or profit or otherwise, to the listing applicant. While the applicant This means that Contractual Arrangements may not only be in full compliance with the Other Requirements prior to used to the extent necessary to address any limits on foreign ownership, except as provided in paragraphs 16B and 16C. The listing (or prior to transferring its listing from GEM to the Main Board), it applicant must have committed financial and other resources to implement full compliance (Updated in February 2018). otherwise directly hold the maximum permitted interest in the OPCO. For the avoidance of doubt, even if the listing applicant is able to control OPCO through the direct equity interest held by it in OPCO (e.g. by holding a direct equity interest of more than 50%), the remaining equity interest that is not permitted to be directly held by it may still be held through Contractual Arrangements (Added in November 2013 and amended in April 2018).~~
- 16B. ~~If non-restricted businesses are involved, the Listing Department will normally refer the case to the Listing Committee.~~

If the OPCO, as a result of having foreign ownership, is required to obtain approval and fulfill additional eligibility standards (“Other Requirements”), the listing applicant must fulfill such Other Requirements. The listing applicant must seek and obtain such regulatory approval to directly hold the maximum interest in the OPCO prior to submitting its listing application, unless the approving regulatory authority confirms that it will not or cannot give approval even if the listing applicant fulfilled the Other Requirements:

- a. because no procedures or guidance for granting approval are available; or
- b. for policy reasons.

(Paragraph 16B added in April 2014 and amended in April 2018)

16C. If clear procedures or guidance from the approving regulatory authority is not available, the listing applicant can directly hold less than the maximum permitted interest in OPCO if it demonstrates to the satisfaction of the Exchange that it has, as advised by its legal advisers, reasonably assessed the requirements under all applicable rules, committed financial and other resources and implemented all the legal adviser's recommendations prior to submitting its listing application. A mere intent, undertaking or plan to implement such recommendations is not sufficient (Added in April 2018).

17. If there are no limits on foreign ownership, the listing applicant must not use Contractual Arrangements to carry on its business (Added in November 2011 and amended in April 2018).

47.18. In addition to the matters in paragraph 13, the Exchange requires any listing applicant using ~~Structured Contracts~~Contractual Arrangements and/ or its sponsor to:

a. provide reasons for the use of ~~Structured Contracts~~Contractual Arrangements in its business operation;

b. ~~unwind~~terminate the ~~Structured Contracts~~Contractual Arrangements as soon as the law allows the business to be operated without them. The OPCO's registered shareholders must undertake that, subject to the relevant laws and regulations, they must return to the listing applicant any consideration they receive in the event that the listing applicant acquires the OPCO's shares when ~~unwinding~~terminating the ~~Structured Contracts~~Contractual Arrangements. The undertaking must be disclosed in the listing document (~~Updated~~Amended in November 2013);

c. ensure that the ~~Structured Contracts~~Contractual Arrangements:

(i) include a power of attorney by which the OPCO's shareholders grant to the listing applicant's directors and their successors (including a liquidator replacing the listing applicant's directors) the power to exercise all rights of the OPCO's shareholders, including the rights to vote in a shareholders' meeting, sign minutes, and file documents with the relevant companies registry. OPCO's shareholders should ensure that the power of attorney does not give rise to any potential conflicts of interest. Where OPCO's shareholders are officers or directors of the listing applicant, the power of attorney should be granted in favour of ~~either the listing applicant and unrelated~~actions in relation to the Contractual Arrangements must be decided by officers or directors of the listing applicant who are not shareholders of OPCO;

(ii) contain dispute resolution clauses that:

- provide for arbitration and that arbitrators may award remedies over the shares or land assets of OPCO, injunctive relief (e.g. for the

conduct of business or to compel the transfer of assets) or order the winding up of OPCO;

- provide the courts of competent jurisdictions with the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of Hong Kong, the listing applicant's place of incorporation, the OPCO's place of incorporation, and the place where the listing applicant or the OPCO's principal assets are located should be specified as having jurisdiction for this purpose; and
- (iii) encompass dealing with the OPCO's assets, and not only the right to manage its business and the right to revenue. This is to ensure that the liquidator, acting on the ~~Structured Contracts~~Contractual Arrangements, can seize the OPCO's assets in a winding up situation for the benefit of the listing applicant's shareholders or creditors.

(Paragraph 18 added in November 2011)

18A. Where the relevant laws and regulations specifically disallow foreign investors from using any agreements or ~~contractual arrangements~~Contractual Arrangements to gain control of or operate a foreign restricted business (e.g. on-line game business in the PRC which is subject to GAPP's Notice 13¹), the legal adviser's opinion on the ~~Structured Contracts~~Contractual Arrangements must include a positive confirmation that the use of the ~~Structured Contracts~~Contractual Arrangements does not constitute a breach of those laws and regulations or that the ~~Structured Contracts~~Contractual Arrangements will not be deemed invalid or ineffective under those laws and regulations. The legal opinion must be supported by appropriate regulatory assurance, where possible, to demonstrate the legality of the ~~Structured Contracts~~Contractual Arrangements **(Added in November 2013)**.

~~48.19.~~An listing applicant using ~~Structured Contracts~~Contractual Arrangements for the entire or part of its business should disclose the following information concerning the ~~Structured Contracts~~Contractual Arrangements in its listing document:

- a. ~~Detailed~~detailed discussion about the OPCO's registered shareholders and a confirmation that appropriate arrangements have been made to protect the listing applicant's interests in the event of death, bankruptcy or divorce of the OPCO's registered shareholders to avoid any practical difficulties in enforcing ~~Structured Contracts~~Contractual Arrangements.

¹ "Notice Regarding the Consistent Implementation of the "Stipulations on 'Three Provisions'" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games" (Xin Chu Lian [2009] No. 13) published jointly by PRC General Administration of Press and Publication, National Copyright Administration, and National Office of Combating Pornography and Illegal Publications on 28 September 2009 (as amended from time to time).

- b. ~~The~~the extent to which the listing applicant has arrangements in place to address the potential conflicts of interest between the listing applicant and the OPCO's registered shareholders, particularly in cases where these shareholders are officers and directors of the listing applicant.
- c. ~~Bases~~bases why the directors believe that each of the agreements conferring significant control and economic benefits from the OPCO to the listing applicant is enforceable under the relevant laws and regulations.
- d. ~~The~~the economic risks the listing applicant bears as the primary beneficiary of the OPCO, in what way the listing applicant shares the losses of the OPCO, the circumstances that could require the listing applicant to provide financial support to the OPCO, or other events or circumstances that could expose the listing applicant to losses.
- e. A~~a~~ discussion on whether the listing applicant has, to date, encountered any interference or encumbrance from any governing bodies in operating their business through the OPCO under the ~~Structured—Contracts~~Contractual Arrangements.
- f. ~~The~~the limitations in exercising the option to acquire ownership in the OPCO, include a separate risk factor explaining these limitations, and clarifying that ownership transfer may still be subject to substantial costs.
- g. ~~The Structured—Contracts~~the Contractual Arrangements as material contracts in the "Statutory and General Information" section and make them available on the listing applicant's website (Amended in November 2012).
- h. ~~Corporate~~corporate structure table in the "Summary" section for the purpose of illustrating the ~~Structured—Contracts~~Contractual Arrangements and facilitating investors' review and understanding of the arrangements.
- i. ~~Details~~details of any insurance purchased to cover the risks relating to ~~Structured—Contracts~~Contractual Arrangements, or a prominent disclosure that those risks are not covered by any insurance (Added in December 2012).
- j. A~~a~~ separate disclosure of revenue from Structured Contract arrangements if the listing applicant generates revenue from other subsidiaries apart from the OPCO (Added in November 2013).
- k. I~~if~~ the OPCO's operations are in the PRC, a positive confirmation from the PRC legal advisers that the ~~Structured—Contracts~~Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" and void under the PRC contract law (Added in November 2013).

(Paragraph 19 added in August 2012)

19-20. The relevant disclosure on ~~Structured—Contracts in~~Contractual Arrangements in the listing document should follow the following guiding principles:

- a. **Various sections** – To avoid repeated disclosure in various sections, such as those relating to connected transactions arising from the ~~Structured Contracts~~Contractual Arrangements, the basis of consolidation of the OPCO, and the terms of the ~~Structured—Contracts~~Contractual Arrangements, disclosure on ~~Structured—Contracts~~Contractual Arrangements (other than risk factors)

should be consolidated into one standalone section. Appropriate cross references should be sufficient.

- b. **Risk Factors** – Disclose Cluster all related risk factors ~~in a cluster~~ under an appropriate heading, such as “Risks relating to Corporate Structure”. In addition, the listing document should include at least the following Structured Contracts Contractual Arrangements-related risk factors:
- (i) The government may determine that the Structured Contracts Contractual Arrangements do not comply with applicable regulations;
 - (ii) The Structured Contracts Contractual Arrangements may not provide control as effective as direct ownership;
 - (iii) The domestic shareholders may have potential conflicts of interest with the listing applicant; and
 - (iv) Structured Contracts Contractual Arrangements may be subject to scrutiny of the tax authorities and additional tax may be imposed.

(Paragraph 20 added in August 2012 and amended in November 2013)

DRAFT PRC FOREIGN INVESTMENT LAW

Background

20-21. This Listing Decision is in part based on the conclusion that the Structured Contracts comply with PRC laws, rules and regulations, and are legal and binding. This is evident in paragraphs 6, 13(d), 14 and 15 above.

21-22. Following publication of the consultation draft (the “Draft FIL”) of the new PRC Foreign Investment Law (the “FIL”) by the Ministry of Commerce in January 2015, concerns over the legality and validity of Structured Contracts to hold interests in PRC businesses which are subject to foreign ownership restrictions may be were heightened. Applicants which use Structured Contracts to hold interests in PRC businesses are encouraged to contact the Exchange at the earliest possible opportunity in advance to seek informal and confidential guidance: on novel issues **(Amended in April 2018).**

Measures to be adopted, if any

23. Since there is uncertainty as to the implementation and the wording of the final FIL, a listing applicant with a VIE business in the PRC should seek PRC legal advice and decide what measures to adopt (if any) to mitigate against any potential risk.

24. Whether or not the listing applicant decides to adopt any measures, it must disclose in the listing document the reasons for taking that approach.

25. If the listing applicant decides to adopt certain measures, it must also include an appropriate risk factor in the listing document stating that such measures may not be effective since the FIL has not been finalised and requirements under the final FIL may be different from those set out in the Draft FIL.

26. A listing applicant with a VIE business in the PRC should also include the following disclosure in the listing document (and highlighted in the “Summary” and “Risk Factors” sections):

a. Description of the Draft FIL pursuant to our Guidance Letter HKEX-GL86-16 and its promulgation status.

b. A risk factor (i) explaining that the Draft FIL is currently in draft form only, (ii) cross referring to the description of the Draft FIL; (iii) stating that if the listing applicant cannot comply with the final FIL, if and when it becomes effective, it may be required to dispose of its VIE business under the Structured Contracts; and (iv) if the listing applicant no longer has a sustainable business after such disposal, the Exchange may delist the listing applicant.

c. A statement that the listing applicant will disclose, as soon as possible: (i) updates of changes to the Draft FIL that will materially and adversely affect the listing applicant as and when they occur; and (ii) a clear description and analysis of the final FIL as implemented, specific measures taken by the listing applicant to fully comply with the final FIL supported by a PRC legal opinion and any material impact of the final FIL on the listing applicant’s operations and financial position.

27. If the listing document indicates that the listing applicant will acquire or establish a VIE business after listing, then the Exchange will apply the above guidance to the listing applicant.

On-going developments

28. The Exchange recognises that the Draft FIL remains subject to change. The Exchange will continue to monitor developments with respect to the FIL and will update this document when appropriate.

(Paragraphs 23 to 28 added in April 2018)