

Part B Consultation Questions

Please reply to the questions below that are raised in the Concept Paper downloadable from the HKEx website at: [add link]. Please indicate your preference by ticking the appropriate boxes.

Where there is insufficient space provided for your comments, please attach additional pages.

We encourage you to read all of the following questions before responding.

1. Should the Exchange¹ in no circumstances allow companies to use WVR structures?

- Yes (in no circumstances allow companies to use WVR structures)
- No

Please give reasons for your views below.

In the US, there are a lot of venture capital companies to invest in the pre-listing companies. They have a proper channel to exit in the secondary market in the US. However, venture capitals are much less in HK partly due to a lack of interests from investment banks to help their investments go listings. In addition, founders in some industries like internet and biotech require talents but a lot of capital which offer opportunities for venture capitals. These venture capitals will monitor their investment closely until they exit. For founders, they need to have higher weighted in their voting share capital to maintain control once the venture capital exit. In addition, the majority of the minority shareholders are professionals or institutional investors even though after venture capital exit. The criminal and civil liabilities of investment banks and auditors are good enough to protect investors.

Please only answer the remaining questions if you believe there are circumstances in which companies should be allowed to use WVR structures.

2. Should the Exchange permit WVR structures:

- (a) for all companies, including existing listed companies; or
- (b) only for new applicants (see paragraphs 147 to 152 of the Concept Paper);
or
- (c) only for:
- (i) companies from particular industries (e.g. information technology companies) (see paragraphs 155 to 162 of the Concept Paper), please specify below which industries and how we should define such companies;

¹ References to “the Exchange” in this Questionnaire mean The Stock Exchange of Hong Kong Limited, a HKEx subsidiary.

we need a broader base for WVR structures so that we don't need to request this relaxation from time to time. In addition, HK need to be competitive with the US stock market to attract more innovative companies to go listing here.

or

- (ii) “innovative” companies (see paragraphs 163 to 164 of the Concept Paper), please specify how we should define such companies below;

or

- (iii) companies with other specific pre-determined characteristics (for example, size or history), please specify with reasons below;

or

- (d) only in “exceptional circumstances” as permitted by current Listing Rule 8.11² (see paragraph 81 of the Concept Paper) and, if so, please give examples below.

Please give reasons for your views below.

² GEM Rule 11.25.

If you wish, you can choose more than one of the options (b), (c) and (d) above to indicate that you prefer a particular combination of options.

3. If a listed company has a dual class share structure with unequal voting rights at general meetings, should the Exchange require any or all of the restrictions on such structures applied in the US (see the examples at paragraph 153 of the Concept Paper), or others in addition or in substitution?

Please identify the restrictions and give reasons for your views below.

All restrictions proposed at paragraph 153 except minimum threshold of shares outstanding below 20% of total share capital should apply. It is because a lot of founders such as Tencent's chairman holding only 10%. I think this threshold should reduce to 5%.

4. Should other WVR structures be permissible (see Chapter 5 of the Concept Paper for examples), and, if so, which ones and under what circumstances?

Please give reasons for your views below. In particular, how would you answer Question 2 and Question 3 in relation to such structures?

No opinion

5. Do you believe changes to the corporate governance and regulatory framework in Hong Kong are necessary to allow companies to use WVR structures (see paragraphs 67 to 74 and Appendix V of the Concept Paper)?

Yes

No

If so, please specify these changes with reasons below.



6. Do you have any comments or suggestions regarding the additional matters discussed in paragraphs 33 to 47 of the Concept Paper:

- (a) using GEM, a separate board, or a professional board to list companies with WVR structures (paragraphs 33 to 41 of the Concept Paper); and

I don't think a separate board is suitable because some investors will treat the listed companies in this new separate board as inferior companies like GEM. Currently, a lot of funds can't invest in GEM and most stockbroking houses do not offer margin financing for GEM companies.

- (b) the prospect of overseas companies seeking to list for the first time on the Exchange with a WVR structure or seeking a further primary or secondary listing here (see paragraphs 44 to 47 of the Concept Paper)?

There are a lot of internet companies listed and pending to list in the US due to flexible WVR structures in the US. HK can compete with the US and London stock markets for all types of listing companies originated from China. The only exception is the internet companies in China which are 1) all non state own enterprises, 2) founders normally hold less than 20% stake, 3) a lot of venture capital as pre-listing investors control the shareholding. In early 2014, there were 40 internet companies planned to go listing in the US. Given the expanding internet population in China, there will be more Chinese innovative companies to go listing in the future.

7. Do you have any other comments or suggestions regarding WVR structures?

it is better to be more flexible for WVR structure for the internet or biotech companies because all these companies are asset light. It does not like the traditional HK companies which are property denominated. The disposal of one property from the listing companies at a discount to a third party or the major shareholder will not affect the operation of the core business but is negative to the listed companies. However, for internet companies, the most important is to make sure the founder of the internet companies to have only one listing vehicle in the same type of business so that the founder is allowed to dispose some part of business in the listed vehicle to the major shareholder at a discount.

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