

To: Corporate and Investor Communications Department  
Hong Kong Exchanges and Clearing Limited,  
12/F, One International Finance Centre,  
1 Harbour View Street,  
Central, Hong Kong  
21<sup>st</sup> March 2018

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**Public Submission Re: Emerging and Innovative Companies CP**

Dear Sir/Madam,

We would like to submit the following responses to the Consultation Paper on 'A Listing Regime for Companies from Emerging and Innovative Sectors' dated February 2018.

This submission will be divided into two parts; the first will be specific to the proposals contained in the consultation paper regarding 'weighted voting rights' (WVR), and the second are general comments also concerning WVR.

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In paragraph 24 we would suggest that all WVRs should also be lapsed when the company has been poorly run leading to insolvency, potential defaults, or qualifications to financial statements.

Next in paragraph 25 we are of the view that 10 years should be long enough for the company to return to "one-share, one-voting".

Further, in paragraph 30 we are of the opinion that a cooling period should be imposed for these INEDs to be re-elected.

Part II:

Whilst there are 'Enhanced Corporate Governance' requirements in paragraphs 29-32, we propose that more safeguards be inserted as conditions for WVR shareholders. More to the point, we believe that more 'checks and balances' should be introduced. Such 'checks and balances' are vital to ensure good corporate governance practices are maintained and ensure WVR shareholders do not exploit their powers against the interests of all other shareholders.

More importantly, we are firm in the view that the trust and confidence of investors and potential investors is the cornerstone of market integrity. As such the wider implications of having 'checks and balances' in place against WVR shareholders exploiting or abusing their voting powers is critical for the continued success of Hong Kong's position as an international financial center. In absence of adequate measure against possible abuse would make investments to the proposed emerging and innovative companies on the 'Third Board' liken a game of cards or chance because such investments would be highly risky for all other shareholders.

The safeguards we are referring to in that all WVR shareholders are subjected to compliance with the HKEx's listing rule in appendix 14 – Corporate Governance Code and Corporate Governance Report'. We propose that WVR shareholders be stripped of their WVR and converted into ordinary shares if they have breached provisions in appendix 14. And provisions contained in appendix 14 are to be made mandatory without exceptions for these entities. Therefore breaching any of those provisions meant that compliance has failed. Since the HKEx introduced appendix 14 to ensure investors and potential investors that the Exchange highly values good corporate governance practices, failures by listed entities to comply with those provisions imply good corporate governance practices has not been observed. Failure by directors to discharge their duties will thus be clear.

Furthermore, WVR shareholders who are directors could be stripped of their WVR and converted into ordinary shares if they have breached directors' duties [referring to the directors' general law of fiduciary duties and section 465 of the Companies Ordinance (Cap. 622)]. The inclusion of such measures for WVR shareholders would demonstrate that good corporate governance practices is paramount and non-negotiable. Apart from sending a clear signal to other shareholders and the market that these listed entities treat good corporate governance very seriously, the inclusions of such conditions could allay some of the concerns of the critics of WVR.

Finally, we firmly believe that there is no substitute to good corporate governance. To this end the introduction of the above suggestions to WVR holders would be in our humble opinion enhancing the listed entities of the third board's commitment and credentials to high standards in their corporate governance practices.

End of submission. Thank you