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Latham & Watkins LLP

Company/Organisation view

Law Firm

Question 1

Do you agree that the WVR Financial Eligibility Test thresholds should be lowered?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal that the WVR Financial Eligibility Test thresholds should be lowered. The current thresholds are the highest among markets with tailored WVR financial eligibility requirements in the cited examples in the Consultation Paper. As noted in the Consultation Paper, the SSE and SZSE are the only peer exchanges that have financial eligibility requirements tailored for issuers with a WVR structure, and the Exchange's current thresholds are higher than those of the SSE and SZSE. The US exchanges do not impose any tailored financial eligibility thresholds for WVR issuers at all. The proposed thresholds would bring the Exchange's requirements closer to those of its peer markets in the Chinese Mainland.

The WVR regime was initially designed to accommodate high growth companies from emerging and innovative sectors, particularly in the technology sectors. As set out in Appendix IV to the Consultation Paper, of the 62 sample WVR issuers listed in the US that have not yet listed in Hong Kong, 18 companies with compliant WVR structures could not meet the current financial eligibility requirements under Main Board Chapter 8A despite being otherwise eligible for listing. Lowering the thresholds would enable a greater number of these companies to consider Hong Kong as a listing destination.

Importantly, the proposed thresholds would remain significantly higher than those applicable to non-WVR issuers. The highest initial market capitalisation threshold for a non-WVR listing under MB Rule 8.05 is HK$4 billion, which is substantially below the proposed HK$20 billion under WVR Test A and HK$6 billion under WVR Test B.

Question 2

Do you agree with the proposed WVR Financial Eligibility Test thresholds (as set out in paragraph 91 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the specific thresholds proposed in paragraph 91 of the Consultation Paper. The proposed thresholds are, in our view, appropriately calibrated for several reasons. First, they are generally in line with the corresponding thresholds of the SSE and SZSE main boards under the market capitalisation only test, thereby ensuring broad alignment with the Exchange's peer markets in the Chinese Mainland. Second, the proposed revenue threshold of HK$600 million maintains the same ratio of revenue to market capitalisation as the current WVR Test B (being HK$10 billion market capitalisation with HK$1 billion revenue), ensuring internal consistency within the test. Third, the proposed thresholds are tailored to the profile of the companies that the WVR regime is designed to attract, including new economy companies from emerging and innovative sectors, which typically have high growth potential but may not yet have achieved the very high market capitalisation and revenue levels demanded by the current test.

As noted in our response to Question 1, the proposed thresholds would remain materially higher than the highest initial market capitalisation threshold applicable to a non-WVR issuer under MB Rule 8.05. The proposed HK$20 billion threshold under WVR Test A represents five times the highest non-WVR threshold. This differential, together with other requirements that are applicable to WVR companies e.g. Innovative Company Requirements ensure that WVR structures would continue to be confined to a relatively small number of larger issuers.

Question 3

Do you agree with the proposal to accept a 20:1 WVR Ratio Cap if an applicant has a market capitalisation of at least HK$40 billion at the time of listing (see paragraph 103 of the Consultation Paper)?

No

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to permit a weighted voting ratio cap of up to 20 votes per WVR share. However, we respectfully submit that the 20:1 WVR Ratio Cap should be available to all WVR companies, and should not be restricted to applicants with a market capitalisation of at least HK$40 billion at the time of listing. We propose that any WVR company, whether a new applicant or an existing listed issuer with a WVR structure, should be permitted to adopt a weighted voting ratio of up to 20:1, subject to (in the case of existing listed issuers) (i) the approval of the independent shareholders on a one share one vote basis; and (ii) the laws of the place of incorporation of the issuer. Our primary reasoning for this position is as follows. The UK removed its 20:1 cap on WVR voting power entirely in July 2024 and now has no WVR Ratio Cap at all. The US market has never had any voting power ratio restriction. Since the adoption of the 10:1 WVR Ratio Cap in 2018, the regulatory landscape has evolved considerably, with a growing number of jurisdictions moving away from imposing caps on voting power. In this context, tying the availability of a 20:1 ratio to a market capitalisation threshold of HK$40 billion would still leave Hong Kong at a competitive disadvantage relative to these key competitor jurisdictions, which impose no such condition. Making the 20:1 WVR Ratio Cap available to all WVR companies would more effectively address this competitive gap. We recognise that a higher weighted voting ratio carries heightened risks of misalignment of interests between WVR beneficiaries and minority shareholders, including the risks of expropriation and entrenchment. However, we submit that these risks are adequately mitigated by the existing suite of safeguards applicable to WVR issuers. In the case of existing listed issuers seeking to change their WVR structure, the requirement that any adoption of, or increase to, a 20:1 ratio must be approved by the independent shareholders on a one share one vote basis ensures that non-WVR shareholders have a direct and meaningful say in the decision. Also, the requirement that any such WVR arrangement must be consistent with the laws of the place of incorporation of the issuer provides an additional governance check that protects minority shareholders without the need for an arbitrary market capitalisation threshold.

As noted in Appendix V to the Consultation Paper, even with a 20:1 weighted voting ratio and a 10% minimum economic interest, non-WVR shareholders would retain an aggregate voting power of at least approximately 30%, compared to approximately 47% under a 10:1 ratio. This level of retained voting power, together with the existing safeguards, including the requirement that non-WVR shareholders must always be entitled to cast at least 10% of votes on resolutions, the enhanced corporate governance requirements applicable to WVR issuers, and the restrictions on matters that must be voted on a one-share-one-vote basis, provides a meaningful check on the exercise of WVR power. For the above reasons, we believe that making the 20:1 WVR

Ratio Cap available to all WVR companies, subject to shareholder approval on a one share one vote basis and the law of the place of incorporation, would strike an appropriate balance between enhancing the competitiveness of the Exchange's WVR regime to align with its key competitor jurisdictions and safeguarding the interests of minority shareholders through the combination of shareholder approval, the continued application of the suite of WVR-specific investor protection measures, and the existing minimum economic interest requirements.

Question 4

Do you agree with the proposal to clarify that the Exchange may be prepared to accept the listing of an applicant whose WVR beneficiaries collectively hold a lower minimum economic interest at listing only if such lower underlying economic interest, at the time of the applicant's initial listing: (a) represents at least 5% of the applicant's total issued share capital; and (b) has an amount of at least HK$4 billion (see paragraph 105 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to refine the Exchange's existing discretion to accept a lower minimum WVR shareholding percentage at listing, subject to the proposed floor of at least 5% of the applicant's total issued share capital and an absolute dollar amount of at least HK$4 billion.

The proposal provides clarity and certainty by replacing the current open-ended discretion, which was expressed by reference to an indicative threshold of HK$80 billion in market capitalization. The reduction in the market capitalisation threshold from HK$80 billion to HK$40 billion is proportionate and consistent with the proposed 50% reduction in the market capitalisation threshold under WVR Test A from HK$40 billion to HK$20 billion.

Importantly, this proposal continues to limit the lower minimum economic interest to large cap issuers whose WVR beneficiaries would still hold a very substantial economic stake in absolute dollar terms. The HK$4 billion floor ensures that WVR beneficiaries retain a sufficiently large financial exposure to the issuer's performance to align their interests with those of minority shareholders. The combination of the percentage floor

(5%) and the dollar amount floor (HK$4 billion) is, in our view, a well-calibrated approach that increases the clarity of the Exchange's requirements while addressing the risks of expropriation and entrenchment.

We note, however, that paragraph 106 of the Consultation Paper states that the Exchange would reserve the right, in its absolute discretion, to refuse a listing if a lower minimum WVR shareholding percentage (of below 10%) and/or a higher weighted voting ratio (of over 10:1) represents an extreme case of non-conformance with corporate governance norms, and that the Exchange would consider any such cases holistically, taking into account the combined effects such WVR structure may have on the potential risk of misalignment of interests. While we appreciate the Exchange's need to retain discretion in this regard, we would respectfully encourage the Exchange to provide further guidance including illustrative examples and the specific factors it would consider when assessing whether a particular WVR structure constitutes an extreme case of non-conformance. The minimum economic interest at listing and the weighted voting ratio are among the most critical parameters in the structuring of any WVR arrangement, and uncertainty as to how the Exchange will exercise its discretion in this area may deter potential applicants from pursuing a listing on the Exchange, particularly where the combined effects of a higher voting ratio and a lower minimum economic interest are involved. Providing guidance of this nature for example, by indicating the range of aggregate voting power concentrations or specific combinations of voting ratio and economic interest that the Exchange would consider problematic would assist applicants and their advisers in structuring WVR arrangements with greater certainty, while preserving the Exchange's discretion to assess each case on its individual facts and circumstances.

Question 5

Do you agree with the proposal to provide a choice of Route A and Route B that applicants can use to meet the Innovative Company Requirements (as set out in paragraph 126 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to refine the Innovative Company Requirements into two distinct routes, namely Route A (technologies) and Route B (business model), that applicants can use to demonstrate that they are innovative companies suitable for listing with a WVR structure. In our view, this is a significant and welcome step forward that will meaningfully expand the scope of companies eligible to list on the Exchange with a WVR structure, particularly in the biotech and technology sectors, thereby increasing the competitiveness and attractiveness of Hong Kong as a listing venue.

Under the current framework, the Innovative Characteristics are applied on a uniform basis regardless of the specific nature of the applicant's business. In practice, some applicants, particularly those whose innovativeness lies in a new business model rather than proprietary technology, have struggled to satisfy the existing requirements, notwithstanding that they are genuinely innovative companies that the WVR regime was initially designed and targeted to attract. As the Consultation Paper observes at paragraph 139, the Exchange has in the past applied the requirements to applicants in traditional industries whose business models were enabled by technology, but where the technology itself was not novel. The proposed Route B provides a pathway for such applicants by expressly stating that an applicant's business model need not be enabled by novel technology.

We are particularly supportive of the proposed "innovative" presumption for Qualified Biotech Applicants and Qualified Specialist Technology Applicants under Route A. This presumption is based on the reasoning that such applicants share similar specialist characteristics as Specialist Companies and have demonstrated success through both R&D and commercialisation. Under the current regime, it could be that a commercialised biotech or specialist technology company that is able to satisfy the financial eligibility requirements of Main Board Chapter 8 and therefore cannot list under the Specialist Chapters but have found it difficult to meet the existing Innovative Company Requirements due to the uniform application of the Innovative Characteristics. The proposed presumption would remove this practical barrier and is consistent with the objective of the WVR regime to attract new economy companies from emerging and innovative sectors.

<u>Question 6(a)</u>

In respect of Route A, do you agree with the proposed retention of the current Specialist Company Presumptions (as set out in paragraph 127(a) of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with each of the proposals set out in Question 6 in respect of Route A.

First, we agree with the retention of the current Specialist Company Presumptions. The current presumptions have operated effectively since their introduction and provide an established pathway for Specialist Companies seeking to list under the applicable Specialist Chapters with a WVR structure. There is no reason to disturb this framework, and retaining it ensures continuity for applicants and their advisers. As set out in our response to Question 5, we also strongly support the additional "innovative" presumption for Qualified Biotech Applicants and Qualified Specialist Technology Applicants under Route A, which complements the existing Specialist Company Presumptions by extending a comparable pathway to commercialised biotech and technology companies that do not seek to list under a Specialist Chapter.

Second, we welcome the proposed refinements to the Innovative Characteristics applicable to Route A. In particular, we support the proposed modification to the Novelty Characteristic, which provides that the Exchange may still consider an applicant to be innovative if it is "one of the first few in its industry" to adopt new technologies, rather than requiring the applicant to be the sole first mover. This modification reflects the commercial reality that, in high-technology sectors, the fact that one company has adopted a new technology or business model does not necessarily mean that the next few to adopt the same innovation are lacking in novelty. Timing is crucial for high-technology companies, an innovator may be the first to conceive of an idea but the time required to bring it to execution and commercialisation may be longer than that of a competitor who independently arrives at the same innovation shortly afterwards. Penalising such companies for not being the absolute first mover would be inconsistent with the objective of the WVR regime to attract genuinely innovative companies from emerging sectors. As the Consultation Paper notes at paragraph 144(a), the Exchange has in practice deemed issuers to be innovative even though they were only one of several with the same innovation, and the proposed modification codifies this practice.

We also support the proposed modification to the IP Characteristic, which removes the reference to "unique features" and focuses the requirement on IP alone. As the Consultation Paper observes at paragraph 144(b), the current reference to "unique features" has proven too vague in practice, and applicants have demonstrated this characteristic by reference to their IP only. The proposed amendment better reflects current vetting practice and provides clarity for applicants.

Finally, we agree that it is appropriate for Route A applicants, as the route for applicants whose innovativeness lies in the adoption of new technology, to be expected to possess the Novelty Characteristic plus more than one of the R&D, IP, and Outsized Market Cap Characteristics. This is consistent with the current expectation that an innovative company must possess more than one of the four Innovative Characteristics, and ensures that the innovativeness of technology-driven applicants is validated by multiple indicators of technology-based success rather than by just the Novelty Characteristic alone.

Question 6(b)

In respect of Route A, do you agree with the proposed "innovative" presumption for Qualified Biotech Applicants and Qualified Specialist Technology Applicants (as set out in paragraphs 127(b), 132 and 133 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

Please refer to our response to question 6(a).

Question 6(c)

In respect of Route A, do you agree with the proposed refinements to the Innovative Characteristics that are applicable to Route A (as set out in paragraphs 127(c), 129 and 130 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

Please refer to our response to question 6(a).

Question 7(a)

Do you agree with the proposed refinements to the Innovative Characteristics that are applicable to Route B (as set out in paragraphs 129 and 131 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with each of the proposals set out in Question 7 in respect of Route B and the external validation requirements.

First, we support the proposed refinements to the Innovative Characteristics applicable to Route B, including the CAGR Growth Characteristic and the Industry Position Characteristic. These objective and measurable criteria help validate the innovativeness of business-model-driven applicants in the absence of technology-based success criteria such as R&D and IP. In respect of the CAGR Growth Characteristic, we note that the Exchange may accept that an applicant relies on alternative operational metrics (such as gross merchandise value) to demonstrate an equivalent rate of growth, provided that the applicant can establish to the Exchange's satisfaction that such metrics are more relevant and comparable indicators of business growth. We welcome this flexibility. However, we would suggest that, once the rules have become effective and the Exchange has had the opportunity to consider applications relying on such alternative metrics, the Exchange provide periodic updates to the market as to which alternative operational metrics have been accepted. This would serve as a useful point of reference for market practitioners and their advisers when advising future applicants on the availability and suitability of alternative metrics under the CAGR Growth Characteristic.

In respect of the Industry Position Characteristic, we note that an applicant must demonstrate that it holds a "relatively prominent position" in its industry. While we support the inclusion of this characteristic as a meaningful indicator, we respectfully suggest that the Exchange consider providing further guidance on the factors it will take into account when assessing whether an applicant holds a "relatively prominent position." In our view, the current formulation is somewhat vague and may be difficult for applicants and their advisers to assess with confidence in advance of filing a listing application. We would suggest that the Exchange consider providing either a non-exhaustive list of factors that it will take into consideration, such as market share, number of users or customers, brand recognition, revenue ranking within the relevant industry, or other quantifiable indicators of industry standing or some form of measurable benchmark or threshold that the Exchange would regard as indicative of a "relatively prominent position." Guidance of this nature would reduce uncertainty for applicants and their advisers without constraining the Exchange's discretion to assess each case on its individual facts and circumstances.

We agree with the proposed guidance on the meaning of a "sophisticated investor" for the purpose of the external validation requirement. The proposal to assess whether an investor is sophisticated on a case-by-case basis by reference to its net assets or assets under management, its relevant investment experience, and its knowledge and expertise in the relevant field provides a clear and structured framework for assessment. We also welcome the guidance that an investor meeting any of the qualification criteria under the relevant guidance for SPACs and Specialist Technology Companies would normally be considered sophisticated for this purpose. This cross-referencing approach provides further certainty and consistency across the Exchange's listing regimes and reduces the need for applicants and their advisers to seek ad hoc guidance from the Exchange on this issue.

We agree with the proposed guidance on what constitutes "meaningful third-party investment" for Route B applicants, including the 10% aggregate investment threshold. It expressly applying a quantified minimum third-party investment threshold to applicants pursuing Route B will help ensure that these applicants can demonstrate a high level of investor demand and reduce uncertainty resulting from the subjectivity of the Exchange's assessment of whether such applicants are suitable for listing with a WVR structure based on a new business model. We also note the flexibility for the Exchange to accept a lower percentage on a case-by-case basis, which provides an appropriate safety valve for large cap applicants.

Question 7(b)

Do you agree with the proposed guidance on the meaning of a “sophisticated investor” for the purpose of the “external validation” requirement (as set out in paragraph 134 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

Please refer to our response to question 7(a).

Question 7(c)

Do you agree with the proposed guidance on what constitutes "meaningful third-party investment" for Route B applicants for the purpose of the "external validation" requirement (as set out in paragraph 135 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

Please refer to our response to question 7(a).

<u>Question 8</u>

Do you agree with the proposal to lower the financial eligibility thresholds for a secondary listing of an overseas issuer with a WVR structure to align them with those proposed for WVR issuers with a primary listing (see paragraph 173 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to lower the financial eligibility thresholds for a secondary listing of an overseas issuer with a WVR structure to align them with those proposed for WVR issuers with a primary listing.

As a matter of principle, we see no reason why the financial eligibility thresholds for a secondary listing with a WVR structure should be higher than, or diverge from, those applicable to a primary listing with a WVR structure. The current thresholds for both primary and secondary WVR listings are identical and we agree that this consistency should be maintained when the thresholds are lowered. If the primary listing thresholds are reduced without a corresponding reduction to the secondary listing thresholds, the anomalous result would be that the secondary listing route which is intended to be a concessionary route with less onerous compliance obligations would impose more stringent financial eligibility requirements than a full primary listing. The proposed alignment ensures consistency across both primary and secondary listings for issuers with WVR structures.

The need to lower these thresholds is further underscored by the pool of overseas-listed issuers that have not yet listed in Hong Kong. As noted in paragraph 166 of the Consultation Paper, as of the end of 2025, 377 Greater China Issuers with a combined market capitalisation of US$357 billion (HK$2.78 trillion) were listed in the US but had yet to be listed in Hong Kong. Reducing the secondary listing thresholds would make Hong Kong a more accessible and competitive listing destination for a greater number of these overseas-listed issuers, consistent with the HKSAR Government's call to support China concept stock companies' return from overseas markets.

As noted in our response to Questions 1 and 2, the proposed thresholds are broadly aligned with those of the Exchange's peer markets in the Chinese Mainland and remain significantly higher than the thresholds applicable to non-WVR issuers. Furthermore, secondary listed issuers with WVR structures would continue to be required to have a track record of good regulatory compliance, and the reduced thresholds would still meet the regulatory principle of ensuring that only relatively large issuers with a strong compliance track record are eligible for secondary listing.

<u>Question 9</u>

Do you agree with the proposal to lower the market capitalisation threshold under Criteria B from HK$10 billion to HK$6 billion (see paragraph 177 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to lower the market capitalisation threshold under Criteria B from HK$10 billion to HK$6 billion. As set out in paragraph 179 of the Consultation Paper, the adjustment is necessary to ensure that the financial eligibility requirements for a secondary listing of a non-WVR issuer are not more stringent than those for a WVR issuer. Given that the market capitalisation threshold for a secondary listing with a WVR structure under WVR Test B would be lowered to HK$6 billion, it would be anomalous for a non-WVR issuer, which does not carry the additional governance risks associated with WVR structures, to be subject to a higher market capitalisation threshold than its WVR counterpart.

The choice of HK$6 billion as the revised threshold is, in our view, appropriate as it ensures direct alignment with the proposed market capitalisation threshold for WVR issuers under WVR Test B. At the same time, a non-WVR issuer seeking to list under Criteria B would continue to be required to have a track record of good regulatory compliance of at least two full financial years on a Qualifying Exchange, ensuring that the concessionary secondary listing route remains limited to issuers of significant size with a demonstrated compliance track record.

<u>Question 10</u>

Do you agree with the proposal to retain the market capitalisation threshold under Criteria A (see paragraph 178 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to retain the market capitalisation threshold under Criteria A at HK$3 billion.

The HK$3 billion threshold under Criteria A was introduced as part of the proposals set out in the Consultation Paper on Listing Regime for Overseas Issuer, which reduced the minimum market capitalisation requirement for non-WVR issuers seeking a secondary listing from the then-applicable thresholds of HK$40 billion. The HK$3 billion threshold already represents a materially lower bar than the proposed HK$6 billion under Criteria B, reflecting the fact that issuers qualifying under Criteria A are required to demonstrate a substantially longer track record of good regulatory compliance as compared to only two full financial years under Criteria B. This longer track record requirement serves as an additional safeguard that justifies the lower market capitalisation threshold, as issuers with five years of demonstrated regulatory compliance on a qualifying overseas exchange present a much lower regulatory risk profile.

Unlike Criteria B, where the proposed reduction in the WVR Test B market capitalisation threshold to HK$6 billion would result in a WVR issuer and a non-WVR issuer being subject to the same market capitalisation requirement, thereby necessitating a corresponding reduction to avoid the anomaly of a non-WVR issuer being subject to a more stringent threshold, the position under Criteria A is materially different. The proposed WVR Test A market capitalisation threshold of HK$20 billion remains substantially higher than the HK$3 billion threshold under Criteria A, therefore, there is no risk that a non-WVR issuer seeking a secondary listing under Criteria A would be subject to a more onerous requirement than a WVR issuer. The HK$3 billion threshold was calibrated by reference to the longer compliance track record requirement that applies under Criteria A. Accordingly, we do not see any reasons that necessitate an amendment to the existing threshold, which continues to strike an appropriate balance between facilitating secondary listings and maintaining market quality.

<u>Question 11</u>

What measures (if any) do you think the Exchange should implement to further facilitate the listings, in Hong Kong, of issuers listed overseas (see paragraphs 198 and 199 of the Consultation Paper)?

We welcome the Exchange's invitation to provide suggestions on facilitative measures for issuers listed overseas and wish to put forward two proposals for the Exchange's consideration.

First, considering that secondary listed issuers are companies already subject to continuous public and market scrutiny, regulatory supervision, ongoing disclosure obligations as well as corporate governance requirements of the relevant stock exchanges, we would suggest that the Exchange consider permitting secondary listing applicants to incorporate by reference documents that have already been filed with, and are publicly available on, their primary exchange or the relevant securities regulator (such as SEC filings on the EDGAR system). As the Consultation Paper observes at paragraph 195, the Exchange currently applies the same level of prospectus disclosure requirements to secondary listing applicants as to other listing applicants, even though these issuers are already listed companies with substantial public shareholder bases and established track records of meeting public disclosure requirements on their primary markets. The Consultation Paper further notes that other markets including the US, the UK, the EU, Singapore, and Australia, allow incorporation by reference of documents filed under national regimes. In particular, the MAS has proposed, in its consultation paper on proposed amendments to the Securities and Futures Act in relation to the SGX Global Listing Board, to enable the use of a single set of offer documents by allowing issuers to incorporate by reference certain documents in their prospectus if permitted under US requirements, rather than reproducing all the details within the prospectus. Adopting a similar approach in Hong Kong, for example, by permitting secondary listing applicants to cross-refer to or incorporate by reference their existing SEC filings, annual reports, or other publicly available documents filed with their primary exchange, would meaningfully reduce the cost and time associated with preparing a full standalone listing document without compromising the quality or completeness of the information available to investors. We recognise that such an approach would need to be accompanied by appropriate safeguards, including a requirement that any incorporated documents be made readily accessible to Hong Kong investors (for example, by publishing them on the Exchange's website or the issuer's own website).

Second, we would suggest that the Exchange consider streamlining its prospectus disclosure requirements for secondary listing applicants that are already subject to comprehensive disclosure obligations on a Qualifying Exchange. Under the current regime, a secondary listing applicant must prepare a listing document that satisfies the full disclosure requirements of the Listing Rules, notwithstanding that the issuer may already be subject to equivalent or comparable disclosure requirements on its primary exchange. In contrast, the Consultation Paper on Introduction of New SGX Global Listing Board proposed a streamlined framework under which issuers seeking a dual listing need only prepare a single prospectus that meets US disclosure requirements, with the SGX relying on the disclosure standards of the primary market to provide a sufficient baseline of investor protection. While we are not suggesting that the Exchange adopt an identical approach as SGX, we believe there is scope for the Exchange to consider a more streamlined disclosure framework for secondary listing applicants from Qualifying Exchanges instead of being subject to the full disclosure requirements. For instance, the Exchange may consider allowing the issuer to prepare a supplemental prospectus addressing only those areas where the Exchange's disclosure requirements materially differ from, or go beyond, those of the issuer's primary market. Such an approach would be consistent with the regulatory principle underlying the secondary listing regime, namely, that the Exchange places reliance on the regulatory and enforcement framework of the issuer's primary listing market to provide a sufficient level of investor protection.

We also believe that the Exchange should consider allowing secondary listed issuers or depository receipts to be included in the stock connect program (noting that this would require CSRC facilitation), as that would be a key attraction for overseas issuers.

We believe that each of these measures, individually or in combination, would make Hong Kong a more attractive and accessible listing destination for issuers listed overseas while maintaining an appropriate level of investor protection consistent with the principles underlying the Exchange's secondary listing regime.

Please give reasons and specify any accompanying conditions for your suggested measures.

Question 12

Do you agree with the proposal to codify the existing guidance into a Rule to state that an applicant will be considered to have satisfied the Ownership Continuity Requirement if it can demonstrate, to the Exchange’s satisfaction, that there was no material change in influence on management during the Relevant Period despite the change in controlling shareholder over that period to address any packaging concerns (see paragraphs 205 and 206 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to codify the Exchange's existing guidance into a Listing Rule to state that an applicant will be considered to have satisfied the Ownership Continuity Requirement if it can demonstrate, to the Exchange's satisfaction, that there was no material change in influence on management during the Relevant Period despite a change in controlling shareholder over that period.

The existing guidance in Chapter 1.1C of the Guide for New Listing Applicants already provides that an applicant may rebut the presumption that a change in controlling shareholder renders the applicant ineligible for listing by demonstrating that there was no material change in influence on management despite the change in controlling shareholder. The proposal to codify this guidance into the Rules is a welcome step, as it elevates the principle from guidance to a rule-level provision, thereby providing greater certainty to potential applicants and their advisers.

This is particularly important for applicants from high-growth sectors. As the Consultation Paper has pointed out at paragraph 209, it is not uncommon for potential applicants from high-growth sectors including, in particular, the technology and biotechnology sectors, to conduct one or more rounds of fundraising from existing or new investors shortly before filing a listing application. Such fundraising rounds, which are essential to support ongoing research and development activities, product commercialisation, and business expansion, may trigger a change in ownership during the Relevant Period under the Ownership Continuity Requirement. Absent clear rule-level certainty that such changes in ownership can be addressed by demonstrating continuity of management influence, these applicants may be deterred from pursuing a listing on the Exchange and instead choose to list in a jurisdiction that does not apply a packaging presumption. At the same time, the proposal appropriately preserves the Exchange's discretion to reject a listing application where the applicant is unable to meet this requirement, thereby striking an appropriate balance between protecting investor interests through the continued application of the anti-packaging safeguard and providing flexibility to issuers.

Question 13

Do you agree with the proposed consequential updates to our guidance (as set out in paragraph 207 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposed consequential updates to the Exchange's guidance as set out in paragraph 207 of the Consultation Paper. However, we would respectfully encourage the Exchange to consider providing further guidance on the factors that the Exchange will take into consideration when assessing whether an applicant has demonstrated, to the Exchange's satisfaction, that there was no material change in influence on management during the Relevant Period. We note that the existing guidance in Chapter 1.1C of the Guide for New Listing Applicants sets out factors for treating individual shareholders as part of a group of controlling shareholders, including the nature of the shareholders' relationship, how they jointly affected management and control as a unit, and whether they could be regarded as acting in concert for the purposes of the Takeovers Code. However, there is comparatively less guidance on the specific factors the Exchange will consider when evaluating whether there has been a material change in influence on management following a change in controlling shareholder. In the absence of such guidance, applicants and their advisers may face uncertainty in assessing their prospects for satisfying the Ownership Continuity Requirement in advance of filing a listing application, which could undermine the very certainty that the proposal to codify the existing guidance into a Rule is intended to provide. We would suggest that the Exchange consider setting out, on a non-exhaustive basis, the types of factors that may be relevant to its assessment which will assist applicants and their advisers in understanding the Exchange's expectations and in marshalling the evidence necessary to demonstrate compliance, while still preserving the Exchange's discretion to assess each case on its individual facts and circumstances.

Question 14

Do you agree with the proposal to expand the permitted use of US GAAP (as set out in paragraph 213 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to expand the permitted use of US GAAP to (a) subsidiary companies of a US-listed parent seeking to list on the Exchange, and (b) companies with substantial business operations in the United States.

In our view, the expansion is a proportionate and pragmatic measure that is unlikely to result in a significant increase in the number of issuers reporting under US GAAP on the Exchange. As noted in paragraph 223 of the Consultation Paper, only 29 listed issuers in Hong Kong were using US GAAP to prepare their financial statements as at the end of 2025. Even with the expanded scope, we believe the number of issuers electing to report under US GAAP will remain limited to a small proportion of issuers listed on the Exchange, and the proposal will therefore not open the floodgates to widespread adoption of US GAAP as an alternative reporting standard.

In the case of subsidiary companies of a US-listed parent, requiring such subsidiaries to prepare a separate set of financial statements in conformity with HKFRS or IFRS, in addition to the US GAAP financial statements needed for consolidated reporting purposes at the parent level, imposes cost and administrative burden that may deter such companies from pursuing a listing in Hong Kong. Similarly, private companies with substantial business operations in the United States that already prepare their financial statements in conformity with US GAAP on account of those operations would face a significant burden in transitioning to HKFRS or IFRS solely for the purpose of a Hong Kong listing. Removing these barriers aligns with the HKSAR Government's policy objective of optimising the listing regime to support the return of China concept stock companies from overseas markets, with Hong Kong as their preferred destination.

Moreoever, existing investor protections would remain intact under the proposal. Issuers reporting under US GAAP will be required to include, in their listing documents and in their annual and interim reports, a description of the material differences between US GAAP and HKFRS or IFRS together with a Reconciliation Statement. These safeguards enable investors, who may be more familiar with HKFRS or IFRS, to make an informed assessment of the issuer's financial position and performance and to compare financial results on a like-for-like basis with issuers that adopt HKFRS or IFRS. We believe that such protections afford investors a sufficient level of safeguard and strike an appropriate balance between facilitating listings and protecting investors' interests.

Question 15

Do you agree with the proposal to remove the requirement that a US-listed issuer using US GAAP must revert to preparing financial statements using HKFRS or IFRS if it subsequently delists from the US (see paragraph 214 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to remove the requirement that a US-listed issuer using US GAAP must revert to preparing financial statements using HKFRS or IFRS if it subsequently delists from the US.

As the Consultation Paper has pointed out in paragraph 224, transitioning to a new accounting standard is a time and resource intensive exercise for an issuer, as it would involve rewriting internal accounting policies, reconfiguring financial systems, and restating historical financial statements to ensure comparability. The burden of such a transition is significant and, in our view, the current requirement to revert to HKFRS or IFRS upon a US delisting represents a material deterrent for companies considering a listing on the Exchange. A prospective issuer contemplating a dual primary or secondary listing in Hong Kong may be reluctant to commit to the Exchange if it knows that a future delisting from the US, regardless of whether it is voluntary or involuntary, would trigger the additional cost and administrative burden of a mandatory transition to a different set of accounting standards.

This concern must, of course, be balanced against the interests of investors, who are generally more familiar with HKFRS and IFRS. However, we agree with the Exchange's analysis at paragraph 223 of the Consultation Paper that requiring an issuer to revert to HKFRS or IFRS upon delisting from the US will not bring significant additional regulatory benefit to its existing shareholders. All 29 listed issuers in Hong Kong that were using US GAAP as at the end of 2025 have been reporting under US GAAP since their primary listings in the US. Over the course of these issuers' listing, their existing shareholders will have sufficiently familiarised themselves with the issuer's US GAAP financial statements and the accompanying Reconciliation Statements. So long as the requirement to provide a Reconciliation Statement reconciling financial results to HKFRS or IFRS is maintained, existing shareholders will continue to be able to assess the issuer's financial position and performance on a basis that is comparable to issuers reporting under HKFRS or IFRS.

Further, as the Consultation Paper observes, allowing issuers to continue to prepare financial statements using US GAAP would facilitate existing shareholders conducting cross-period comparison of financial information prepared under the same accounting standards. Continuity in accounting standards is itself a form of investor protection, as it enables shareholders to track the issuer's financial performance on a consistent basis over time without the distortions that may arise from restating historical financial statements under a new set of accounting standard.

Question 16

Do you agree with the proposal to remove the requirement for a Reconciliation Statement produced for the purpose of unaudited financial results to be reviewed by auditors (see paragraph 215 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to remove the requirement for a Reconciliation Statement produced for the purpose of unaudited financial results to be reviewed by auditors.

As a matter of principle, the level of assurance required for the Reconciliation Statement should be consistent with the level of assurance applicable to the underlying financial statements from which it is derived. Under the current framework, interim financial statements are not required to be audited, and may be published without auditor review. Therefore, for the purpose of consistency and aligning with the approach regarding the review of a Reconciliation Statement with that for interim financial results, it will be sensible to remove the requirement for a Reconciliation Statement for unaudited financial results to be reviewed by auditors.

Most importantly, the proposal does not leave investors without adequate safeguards. The Reconciliation Statement included in a listed issuer's interim report will continue to be required to be reviewed by the audit committee, which serves as an important independent governance check on the accuracy and completeness of the reconciliation. The audit committee, being familiar with the issuer's financial reporting processes and the material differences between US GAAP and HKFRS or IFRS, is well-positioned to provide meaningful oversight of the Reconciliation Statement in lieu of a formal auditor review.

Question 17

Do you agree with the proposal to allow Eligible Specialist Companies to seek a listing under the applicable Specialist Chapters (see paragraph 232 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to allow Eligible Specialist Companies that are able to satisfy one or more of the Rule 8.05 Eligibility Tests to seek a listing under the applicable Specialist Chapters even if they meet the financial eligibility requirements for a Main Board listing.

As the Consultation Paper rightly identifies at paragraphs 229 to 231, the current framework creates an anomalous outcome for Biotech Companies and Specialist Technology Companies that have already commercialised their products by the time they apply to list. Because their commercialisation has enabled them to satisfy one or more of the Rule 8.05 Eligibility Tests, these companies are currently required to list under the ordinary Main Board Chapter 8 route rather than under the Specialist Chapters. This means that they are unable to benefit from the facilitative measures associated with the Specialist Chapters and TECH, including confidential filing and the presumption that they satisfy the Innovative Company Requirements and the external validation requirement for the purpose of listing with a WVR structure.

In our view, it is counterintuitive that a slightly more developed and commercialised specialist company should be penalised, in effect, for its own commercial success. A Biotech Company that has successfully commercialised its Core Product or a Specialist Technology Company that has commercialised its Specialist Technology Products and qualifies as a Commercial Company, has, by definition, achieved precisely the milestones that the Specialist Chapters were designed to support these companies in reaching. The fact that these achievements have translated into revenue sufficient to satisfy the Rule 8.05 Eligibility Tests should be recognised as evidence of the company's strength, not as a reason to deprive it of the benefits that are available to its less commercially advanced peers listing under the Specialist Chapters. The practical consequence of the current framework is particularly acute in relation to the WVR regime. An Eligible Specialist Company that is required to list under the ordinary Main Board Chapter 8 route cannot rely on this presumption and must instead demonstrate that it satisfies the Innovative Company Requirements on a standalone basis, the proposal ensures that these companies can also access the full suite of benefits available under the Specialist Chapters which are not available under the ordinary listing route.

Question 18

Do you agree with the proposed modifications to the additional requirements under the Specialist Chapters to be imposed on Eligible Specialist Companies (as set out in paragraph 233 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposed modifications to the Specialist Chapter requirements for Eligible Specialist Companies.

The proposed modifications recognise that Eligible Specialist Companies are at a more mature stage of development than the pre-revenue or early-stage companies that the Specialist Chapters were originally designed to accommodate. An Eligible Specialist Company, by definition, has already commercialised its products and generated sufficient revenue to satisfy one or more of the Rule 8.05 Eligibility Tests. It follows that a number of the requirements under the Specialist Chapters which were specifically introduced to protect the interests of investors in pre-revenue or early-stage companies whose commercial viability had not yet been demonstrated are no longer necessary or appropriate for such companies and would, if applied, impose an undue burden without delivering a commensurate benefit to investors.

We agree, in particular, with the disapplication of the requirement that a Biotech Company's primary reason for listing be to raise funds for R&D to bring its Core Product(s) to commercialisation, as this requirement is directed at pre-revenue Biotech Companies that are still in the development phase and is not relevant to a company that has already successfully commercialised its products. Similarly, the disapplication of the third-party investment requirement for Eligible Specialist Companies is appropriate, as the purpose of that requirement is to provide external validation of the commercial potential of a pre-revenue or early-stage company, a concern that is adequately addressed by the company's demonstrated track record of revenue generation and its ability to satisfy the Rule 8.05 Eligibility Tests. We also support the removal of the warning statement requirement in listing documents, which is designed to alert investors to the heightened risks associated with investing in pre-revenue companies and is not necessary for a company with an established revenue track record.

Overall, the proposed modifications strike an appropriate balance by allowing Eligible Specialist Companies to access the benefits of the Specialist Chapters while lifting restrictions that were targeted at the specific risks of pre-revenue companies and that are no longer proportionate given the more mature commercial profile of these companies.

Question 19

Do you agree with the proposal to remove the Publication Requirements for all listing applicants, such that a listing applicant (including a listing applicant associated with an Issuer-related Listing Application) may choose not to publish its AP at the time it submits its listing application, in which case it would only be required to publish an OC Announcement on the same date as it publishes its PHIP (as set out in paragraph 260 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposal to remove the Publication Requirements for all listing applicants, such that a listing applicant may choose not to publish its Application Proof at the time it submits its listing application and would only be required to publish an OC Announcement on the same date as it publishes its PHIP.

We note that a growing number of listing applicants have, for various reasons, sought to file their listing applications on a confidential basis. As the Consultation Paper observes at paragraph 252(b), publication of an Application Proof at the time of submission may attract unnecessary external attention or prompt imitation by industry peers, which may in turn affect the applicant's listing plan. We agree that extending confidential filing to all listing applicants, rather than only to certain categories of eligible applicants, would address this concern on a fair and equal basis regardless of the nature and stage of the applicant's business.

Importantly, the quality of the Application Proof should not be affected by whether it is filed confidentially or publicly. Professional parties involved in the preparation of the Application Materials including sponsors and legal advisers are subject to regulatory and professional conduct obligations that apply irrespective of whether the listing application is published at the time of filing. We note that the Exchange's own experience bears this out, that there has been no material difference in the quality of documents submitted confidentially under existing exemptions and waivers when compared to those submitted publicly, and no concerns have been received from market participants regarding a lack of transparency.

The proposal would also bring the Exchange's requirements more closely in line with those of international peer markets. Hong Kong's current requirement to publish an Application Proof at the time of submission is more onerous than the approach adopted in other jurisdictions such as UK and Singapore, and the proposal would remove this competitive disadvantage.

We note in this connection that, as observed at paragraph 255 of the Consultation Paper, at the time Hong Kong introduced the Application Proof publication requirement, the US Securities Act required the public filing of registration statements. Since then, the US has progressively expanded the availability of confidential filing which permitted confidential submission by emerging growth companies, followed by the SEC’s extension of this accommodation to all IPOs in 2017, and most recently the SEC’s further broadening of the regime in March 2025 to cover all follow-on offerings and De-SPAC Transactions. As a result, effectively all IPO registration statements in the US can now be submitted confidentially. The proposal to remove the Publication Requirements would therefore bring Hong Kong back into alignment with the current US position. We also consider that a good balance is struck by the Exchange reserving the right to require the listing applicant to publish its Application Proof if there is a loss of confidentiality, for example, where material information about the listing application has entered the public domain. This ensures that, where confidentiality can no longer be maintained, the market will have access to the full Application Proof so that investors can make informed assessments, while preserving the benefits of confidential filing for applicants that are able to maintain confidentiality throughout the vetting process.

Question 20(a)

Do you agree with the proposal that, in addition to the existing Return Application Details, the identities of other professional parties responsible for the Application Materials also be displayed on the designated webpage of the Exchange (as set out in paragraphs 264 to 265 of the Consultation Paper)?

No

Please give reasons for your views and any alternative suggestions.

While we are supportive of extending confidential filing to all listing applicants, we disagree with the proposal to publicly display the identities and roles of the professional parties listed in Box 1 on the Exchange's designated webpage upon the return of a listing application.

We acknowledge the Exchange's stated rationale of strengthening the deterrent effect of the Return Mechanism and incentivising all professional parties to collaborate towards ensuring that Application Proofs meet the expected standard of disclosure. However, we do not consider that this proposal is proportionate or appropriate, for the following reasons.

First, a number of the professional parties listed in Box 1, including legal advisers and reporting accountants, are already subject to stringent professional conduct obligations and regulatory oversight by the relevant regulatory bodies. We do not believe that the prospect of public identification upon a return would materially alter the standard of care with which these advisers approach their work, as they are already independently incentivised to maintain the highest professional standards.

Second, each professional party engaged on a listing application has a defined role and scope of advice to offer, and the reason for a return may be entirely beyond the control of a particular adviser whose identity would nonetheless be publicly displayed. A return may result from deficiencies in the applicant's own disclosure or the sponsor's coordination of the Application Materials, rather than from any shortcoming in the work of a specific adviser. Publicly identifying all parties in Box 1 regardless of whether the return falls within their area of responsibility could be misleading to the market and result in unfair reputational harm to parties whose work was not deficient and is, in our view, disproportionate.

For these reasons, we do not agree with the proposal to publicly display the identities of the professional parties listed in Box 1 upon the return of a listing application. We respectively invite the Exchange to consider retaining the existing scope of disclosure under the Return Mechanism, namely, the identity of the applicant and the sponsor, which provides a sufficient and proportionate level of accountability.

<u>Question 20(b)</u>

Do you agree with the list of professional parties proposed to be considered as responsible for the Application Materials for the above purpose (as set out in Box 1 under paragraph 265 of the Consultation Paper)?

No

Please give reasons for your views and any alternative suggestions.

Please refer to our response to question 20(a).

<u>Question 21</u>

Do you agree with the proposal to amend the starting point of the 8-week moratorium to either: (a) the date on which all applicable review procedures in respect of the Listing Division’s decision to return the listing application have been completed; or (b) the date on which the time period for invoking any such review procedures has lapsed (as set out in paragraph 266 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree in principle with the proposal to amend the starting point of the 8-week moratorium so that the moratorium does not begin to run until any applicable review procedures in respect of the Listing Division's return decision have been completed (or the time for invoking them has lapsed). As the Consultation Paper observes at paragraph 281, this ensures that the moratorium period takes into account the additional time required for the completion of review procedures, rather than running concurrently with those procedures under the current framework.

<u>Question 22</u>

Do you agree with the consequential changes to issuers' disclosure obligations in relation to Issuer-related Listing Applications (as set out in paragraph 268 of the Consultation Paper)?

Yes

Please give reasons for your views and any alternative suggestions.

We agree with the proposed consequential changes to issuers' disclosure obligations in relation to Issuer-related Listing Applications, as set out in paragraph 267 of the Consultation Paper. The proposed changes are a logical and necessary consequence of extending confidential filing to all listing applicants, as the current disclosure obligations for Issuer-related Listing Applications (including spin-off announcements and GEM Transfer announcements) are based on the assumption that a listing application will be publicly disclosed at the time of filing. If confidential filing is to be extended to all listing applicants, it follows that these disclosure obligations must be adjusted to align with the revised timing of public disclosure.

Please provide your overall comments (if any) regarding the Consultation Paper which have not been covered in the questions above.