



Hong Kong Investor Relations Association
香港投資者關係協會

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

29 November 2014

Dear [REDACTED],

Re: Response to Concept Paper on Weighted Voting Rights

Thank you for giving Hong Kong Investor Relations Association (“HKIRA”) the opportunity to respond to the Concept Paper on Weighted Voting Rights.

HKIRA aims to promote excellence in the investor relations (“IR”) profession in Hong Kong through providing a platform for IR practitioners to exchange views and to share knowledge and experiences; offering education and training programs to support high professional and ethical standards in the practice of IR; organizing professional and social events to advance the awareness and standing of the IR community; as well as representing views of our members to the investor community, regulatory and government bodies. As of today, we have over 280 members in total, approximately 70% of them come from listed companies. These members represent approximately 180 publicly held companies of diverse industry sectors, including banking & finance, conglomerate, industrial, real estate, retail, telecommunications, technology and more, totaling over HK\$6 trillion market capitalization in aggregate.

We welcome the HKEx in seeking views from the markets on weighted voting right structures (“VVR” structures) before it works further in conducting public consultation on this issue. While we agree that listing rules should be reviewed to reflect currently acceptable standards in the market place, we believe we should uphold the core value and general principle of fair disclosure to ensure investors are well-informed before they make any investment decisions. In response to the Concept Paper, our views are summarized as follows:



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- In Hong Kong, the listing rules and regulations are disclosure-based. If the Exchanges would allow companies to use WVR structures, we think companies should be required to make enough disclosures on the relevant risks and difference in shareholder rights and interests such that investors are well-informed to evaluate the relevant risks before they buy the shares.
- Disclosure should be detailed enough and accessible through various communications channels such that the investors will be able to evaluate the implications to their shareholder rights under the WVR structures. In this case, investors are enabled to evaluate the advantages and disadvantages before they make the investment decisions. For example, brokers or financial advisors should alert their customers about the relevant risks before they purchase the shares with WVR structures. Relevant warning statements should be shown to investors when they buy those shares through online trading platforms.
- In addition to the statutory disclosure that are required for WVR structures, we suggest different ticker symbols should be used for companies with WVR structures in order to differentiate them from the companies without WVR structures.
- We believe the current regulatory regime in Hong Kong is well-established in protecting investor rights. Any restrictions on the use of WVR structures or considerations for multiple WVR structures should seek consultation from the market.
- Although information technology industry currently account for majority of the Mainland Chinese companies listing with WVR structures in the US both in terms of number of issuers and their market capitalisation, the permission of WVR structures should be considered for all industries, as in the case for the US exchanges, based on the fair and equal basis. It should also not be restricted to particular industries or “innovative” companies of which definition would be highly subjective and may change as the economy evolves. No restriction should be made to other specific pre-determined characteristics including but not limited to company size and history. Based on the same principle, this should also open for overseas companies seeking for primary or secondary listing if WVR structures would be permissible in Hong Kong.

In summary, we have witnessed growing demands for enhanced corporate governance from investors around the world. We believe the success of Hong Kong as a global financial centre stems from our international regulatory and compliance standards which have been effective in



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protecting investor interests, upholding market integrity and ensuring financial stability. Changes can be considered to the existing listing rules to allow flexibility for the markets as long as we align with the disclosure-based rules and regulations. Hence, we have to make sure enough disclosures will be made on any risks and implications brought by the WVR structures to ensure investors are well-informed before they make the investment decisions.

We hope you find these comments useful and please feel free to contact me if you have any questions.

Yours faithfully,

For and on behalf of HKIRA

Dr. Eva Chan

Chairman

+852 [REDACTED]

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.

Hong Kong listing rules and securities regulations are primarily disclosure-based. As long as there are sufficient disclosure on its characteristics, risks and limitations, the WVR structure should be allowed.

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.

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 WVR structures are permissible, this should be allowed for all companies based on fair and equal principle. In addition, it is difficult to have clear and objective definition for specific industries or "innovative" companies.

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.

Those restrictions on WVR structures in US may not necessarily applicable for the Hong Kong listed companies. Exchanges should seek further consultation on any restrictions on such structures.

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?

Other WVR structures should be permissible on the basis of full disclosure. The disclosure should be detailed enough and accessible for all investors to ensure that they are well-informed of the relevant risks and any other information required for their investment decisions. For example, stock codes for companies with WVR structures should identify its difference from the other companies without WVR structures. In addition, brokers should inform investors about the risks before they buy the shares of those companies with WVR structures. Warning statements about the investments risks in WVR structures should pop up and read by the investors before they buy the shares through online platforms.

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.

We believe the current corporate governance and regulatory framework in Hong Kong are well-established to protect investors interests.

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

If WVR structures are permissible, we expect the initial demand for companies seeking for listing with WVR structures may not be large enough to support a separate board, which may be costly to maintain and promote. We suggest using different stock codes to differentiate those companies with WVR structure from the companies with equal voting rights. In the long run, Exchanges can consider the needs of setting up a separate board if the number of listed companies with WVR structures increase.

- (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)?

We think overseas companies should also be allowed for listing with WVR structures if such structures are permissible in Hong Kong. This will also open more possibilities for prospective overseas companies to seek for listing in Hong Kong.

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

Please refer to our general comments and suggestion in the cover letter.

- End -