



Hong Kong General Chamber of Commerce
香港總商會1861

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Our Ref: SN/3

23 March 2018

Mr Charles Li
Chief Executive
Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Dear Mr Li,

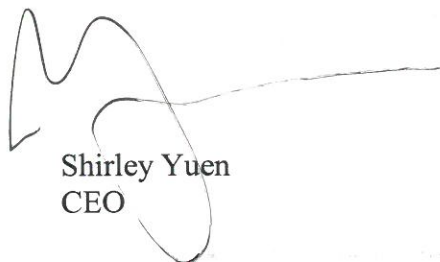
Consultation on a Listing Regime for Companies from Emerging and Innovative Sectors

The Hong Kong General Chamber of Commerce welcomes the opportunity of commenting on the Consultation on the Hong Kong Exchanges and Clearing Limited's proposed listing regime for Emerging and Innovative Companies ("the CP"). We are pleased to attach for your consideration our comments in response to the CP's proposals.

In general, we welcome the proposal to broaden capital market access in Hong Kong and strengthen Hong Kong's listing regime by allowing the listing of companies with weighted voting rights, an issue that our comments are mostly confined to. In addition to ensuring that the new listing conditions serve their intended purpose of attracting quality issuers from the emerging and innovative sectors, fairness and investor protection are also of paramount importance. There should therefore be efforts to promote understanding and awareness among investors on the risks associated with investing in such companies.

We hope you will find our comments useful to your deliberations.

Yours sincerely



Shirley Yuen
CEO

Encl.

cc: Corporate and Investor Communications Department, Hong Kong Exchanges and Clearing Limited

**Response by Hong Kong General Chamber of Commerce (“HKGCC”) to the
Consultation Paper by Hong Kong Exchanges and Clearing Limited (“HKEX”) on “A
Listing Regime from Companies from Emerging and Innovative Sectors” (the “CP”)**

HKGCC welcomes this opportunity to comment on the CP. Our comments (as with our comments on HKEX’s previous consultation papers on this subject) focus on the subject of the proposed relaxation of the listing rules to permit the admission to listing of companies with weighted voting rights (“WVR”). Our comments are as follows:

Investor protection

1. Section 21(2) of the Securities and Futures Ordinance (SFO) clearly sets out HKEX’s statutory duties when it comes to introducing changes of the kind proposed in the CP. It states that HKEX is required to: “(a) act in the interest of the public, having particular regard to the interest of the investing public; and (b) ensure that the interest of the public prevails where it conflicts with the interest of the recognized exchange company.” We believe that HKEX has, to a large degree, adhered to the foregoing principles based on its proposals to introduce New Rules for the purpose of accommodating the listing of companies with WVR structures.
2. In particular, we welcome the HKEX’s commitment to the credo of ‘one share, one vote’, which “continues to be the optimum method of empowering shareholders and aligning their interests in a company”.¹ In this regard, we support the proposal for the eventual phasing out of WVRs, which would only exist as long as the original beneficiaries continue to be involved in the operations of the issuer. HKEX may also wish to consider including an overall maximum cap on the duration of WVRs at 10 years, with the possibility (upon approval by disinterested shareholders) of being extended for a further maximum period of 10 years.

Listing conditions

3. We do not have any other comments on the proposed safeguards, save that on the proposal to limit the scope of companies suitable for listing to those that are, amongst other things, “innovative”.² The criteria as set out in the CP on the definition of innovative companies appear relatively elastic, and arguably many, if not most, companies could argue that they satisfy them. We are therefore not sure whether this criterion in itself would significantly limit the number of successful WVR applicants. As well, the criterion appears to be, to a large extent, discretionary. The HKEX has acknowledged that guidance and clarification may be necessary given the new listing regime and has suggested that prospective issuers consult with it before making a listing application. To address concerns over arbitrariness in the interpretation or

¹ CP para 16.

² CP para 106.

definition of innovation of applicant issuers, we suggest that HKEX involve the Listing Committee in the vetting process.

4. Under the proposed New Rules, WVR companies looking to list on the Main Board would be required to have an expected market capitalisation of at least HK\$10 billion and at least HK\$1 billion of revenue in its most recently audited financial year if it has an expected market capitalization of HK\$40 billion. We wonder whether the threshold is too high, which may deter New Economy companies from listing. We appreciate that the requirement is “to limit applicants to established and high profile companies” but also note that this is much more stringent than the existing Financial Eligibility Tests for prospective issuers. International companies, startups in particular, with better access to private funding from investors and venture capital firms in other sophisticated markets may be less affected but would put their indigenous counterparts at a distinct disadvantage regardless of the latter’s intrinsic potential and opportunity for growth. In this regard, we suggest that consideration be given to a lower threshold of, say, HK\$500 million, in minimum revenue for the most recent financial year. This would be consistent with the current tests for applicant issuers.