

December 2017

CONSULTATION CONCLUSIONS

NEW BOARD CONCEPT PAPER

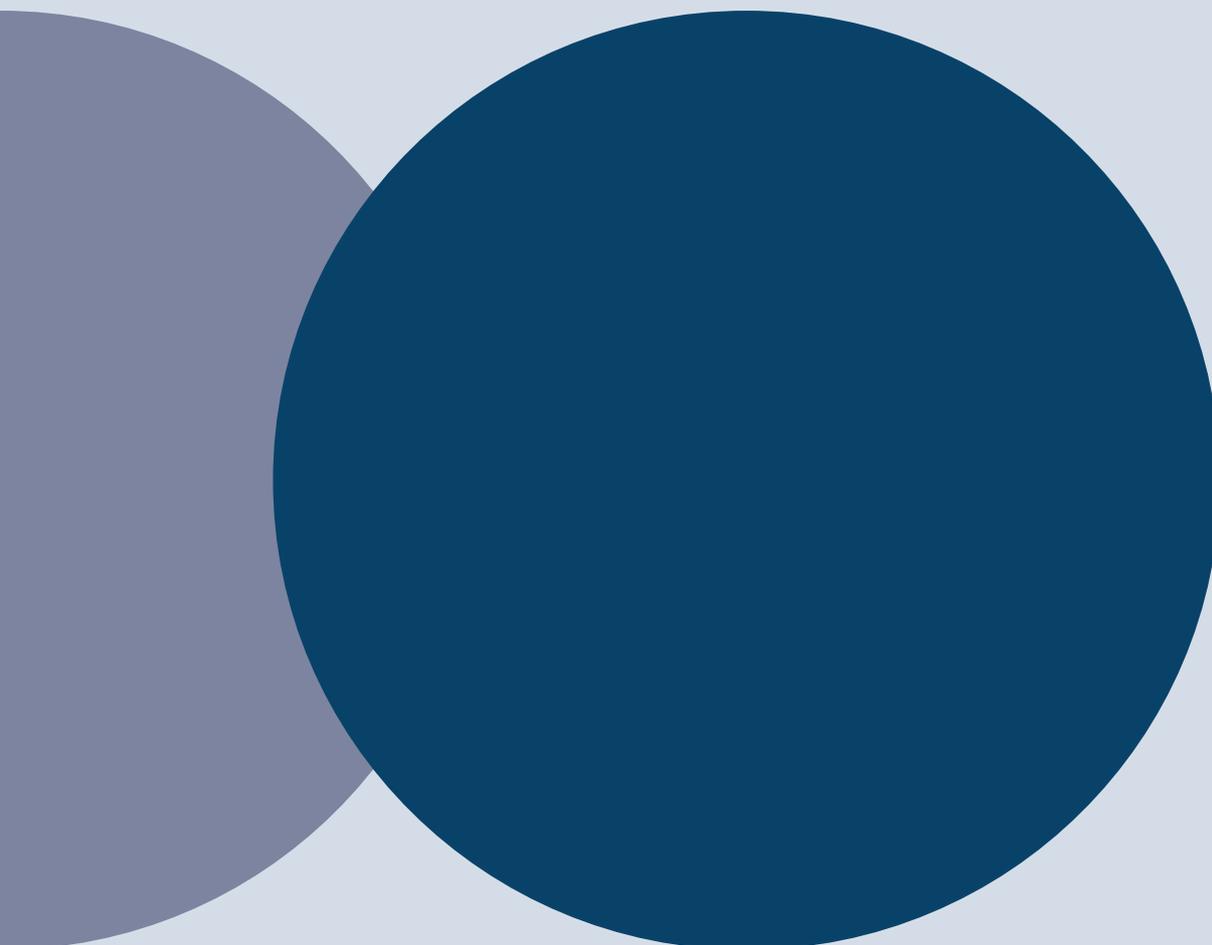


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1 DEFINITIONS

TERM	DEFINITION
“2013 JPS”	The Joint Policy Statement Regarding the Listing of Overseas Companies jointly issued by the SFC and SEHK in September 2013
“Acceptable Jurisdictions”	Overseas jurisdictions (other than Recognised Jurisdictions) that the Listing Committee has formally ruled to be acceptable as an issuer’s place of incorporation
“AGM”	Annual general meeting
“AUM”	Assets under management
“Biotech company / issuer”	Companies engaged in the research and development, application and commercialisation of products, processes or technologies in the biotech sphere.
“Concept Paper”	The Concept Paper on New Board published on 16 June 2017
“Exchange”	Refer to “SEHK”
“Exchange Participant”	An Exchange Participant is a corporation who may trade on or through the Exchange and is licensed under the Securities and Futures Ordinance to carry on securities/ futures/ options dealing activity
“Expected Market Cap”	The minimum expected market capitalisation at the time of listing required for an applicant to list with a WVR structure
“FCA”	UK Financial Conduct Authority
“Financial Adviser”	A proposed professional party to a New Board PRO applicant, who shall be a licensed corporation licensed for Type 6 regulated activity (advising on corporate finance) and subject to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
“Financial Eligibility Tests”	<ul style="list-style-type: none"> (i) Rule 8.05(1)(a) (profit test); (ii) Rule 8.05(2)(d), (e) and (f) (the market capitalisation/revenue/cash flow test); or (iii) Rule 8.05(3)(d) and (e) (the market capitalisation/revenue test) <p>of the Main Board Listing Rules</p>

“Foreign Private Issuer”	<p>A term defined under Rule 405 of the U.S. Securities Act of 1933, as amended, and Rule 3b-4 of the U.S. Securities Exchange Act of 1934, as amended. The term refers to an issuer incorporated or organised under the laws of a foreign country, except an issuer meeting both of the following conditions:</p> <ul style="list-style-type: none"> (i) more than 50 per cent. of the outstanding voting securities of the issuer are directly or indirectly held of record by residents of the United States; and (ii) any one of the following: <ul style="list-style-type: none"> a. the majority of the executive officers or directors of the issuer are United States citizens or residents; b. more than 50 per cent. of the assets of the issuer are located in the United States; or c. the business of the issuer is administered principally in the United States.
“GEM”	Growth Enterprise Market, an alternative market to the Main Board
“GEM Reform Consultation”	A consultation paper dated 16 June 2017 seeking market comments on proposed further changes to the GEM Listing Rules and related changes to the Main Board Listing Rules
“Grandfathered Greater China Companies”	Greater China Companies that are primary listed on a Qualifying Exchange on or before the publication of these consultation conclusions
“Greater China Companies”	Companies with a “centre of gravity” in Greater China as set out in paragraphs 94 and 95 of the 2013 JPS
“Hang Seng Index Company”	Hang Seng Indexes Company Limited, a leading index compiler in Hong Kong
“HKEX”	Hong Kong Exchanges and Clearing Limited
“HKSCC”	Hong Kong Securities Clearing Company Limited
“INED”	Independent non-executive director
“IPO”	Initial public offering

“Key Shareholder Protection Standards”	<p>The key shareholder protection standards set out in section 1 of the 2013 JPS, which comprise:</p> <ul style="list-style-type: none"> (i) super-majority vote of members is required to approve fundamental matters (material changes to constitutional documents, variation of rights attached to any class of shares and voluntary winding-up); (ii) no alteration to the constitutional documents to increase an existing member’s liability unless approved by such member; (iii) appointment, removal and the remuneration of auditors require the approval of a majority of shareholders or other body independent of the board of directors; (iv) issuer must hold an AGM at least every 15 months, give reasonable notice of meetings and members to have the right to speak and vote at the shareholders’ meeting; (v) minority shareholders must be allowed to convene an extraordinary general meeting (the level of members’ support required to convene a meeting must not be higher than 10%); and (vi) HKSCC must be able to appoint proxies.
“Listing Committee”	A committee of the SEHK board of directors that exercises all the powers and functions of the board in relation to listing matters
“Listing Document”	A Prospectus, a circular or any equivalent document (including a scheme of arrangement and introduction document) issued or proposed to be issued in connection with an application for listing
“Listing Rules”	The Rules Governing the Listing of Securities on SEHK (both GEM and Main Board unless otherwise stated)
“LSE”	London Stock Exchange
“Main Board”	The main board of the SEHK
“NASDAQ”	NASDAQ Stock Market
“New Board” ¹	A proposed new listing board in Hong Kong under SEHK as described in the Concept Paper
“New Economy”	Industries include Biotechnology, Health Care Technology, Internet & Direct Marketing Retail, Internet Software & Services, IT Services, Software, Technology Hardware, Storage & Peripherals, as used in the Concept Paper
“Non-Grandfathered Greater China Companies”	Greater China Companies that are primary listed on a Qualifying Exchange after the publication of these consultation conclusions
“Non-Greater China Companies”	Companies that are not Greater China Companies
“NYSE”	New York Stock Exchange
“PRC” or “Mainland”	The People’s Republic of China
“Prospectus”	A prospectus as defined under Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap 32. of the Laws of Hong Kong)

¹ This term was used for the purposes of the proposal only.

“Qualifying Exchange”	A Recognised US Exchange or the Main Market of the LSE (and belonging to the UK FCA’s “Premium Listing” segment)
“Recognised Jurisdictions”	Hong Kong, the People’s Republic of China, Cayman Islands and Bermuda
“Recognised US Exchanges”	NYSE and NASDAQ, and each a “Recognised US Exchange”
“R&D”	Research and development
“SEHK”	The Stock Exchange of Hong Kong Limited
“SFC”	Securities and Futures Commission
“SMEs”	Small- and medium-sized enterprises
“Takeover Panel”	Hong Kong Takeovers and Mergers Panel
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“UK”	United Kingdom
“US”	United States of America
“WVR”	Weighted voting rights
“WVR Concept Paper”	Weighted Voting Rights Concept Paper, published on in August 2014 (here)
“2015 WVR Concept Paper Conclusions”	The consultation conclusions to the WVR Concept Paper published in June 2015 (here)

2 EXECUTIVE SUMMARY

2.1 Introduction

1. The Concept Paper was published pursuant to a holistic review by the Exchange, which identified certain gaps within Hong Kong's listing regime affecting Hong Kong's overall competitiveness versus other major global listing venues, particularly in respect of attracting New Economy companies. Its purpose was to solicit market feedback on whether or not it was necessary to broaden the listing criteria to better accommodate the needs of New Economy companies and, if so, the most appropriate way of doing so.
2. For the purposes of generating debate and encouraging constructive market feedback, the Concept Paper adopted a "straw man" proposal of a two-segment New Board. The New Board proposal set out the following two distinct segments for respondents to comment on:
 - (i) New Board PRO, targeted at earlier stage companies that do not meet the financial or track record criteria of GEM or the Main Board; and
 - (ii) New Board PREMIUM, targeted at companies that meet the existing financial and track record requirements of the Main Board, but which are currently ineligible to list in Hong Kong because they have non-standard governance features.
3. Through the "straw man" proposal and the questions set out in the Concept Paper, the Exchange sought to determine the following:
 - (a) whether Hong Kong needs to attract a more diverse range of issuers, particularly from New Economy sectors;
 - (b) should the listing criteria be widened to include pre-profit and pre-revenue companies that do not meet the profit, revenue or cash flow tests of the Main Board or GEM;
 - (c) whether Hong Kong should pursue a disclosure-only approach or if additional safeguards should be required for companies with WVR structures;
 - (d) should the requirements for Hong Kong "equivalent" shareholder protection standards be waived for companies from New Economy sectors that are already listed on a Recognised US Exchange (or on exchanges in other jurisdictions) to list in Hong Kong on a secondary basis; and
 - (e) should the Exchange proceed, the structural approach that should be adopted for incorporating such issuers into Hong Kong's listing framework.
4. The Exchange received 360 valid responses² to the Concept Paper from a broad range of respondents that were representative of all stakeholders in the Hong Kong market. The responses overwhelmingly supported the need to widen the listing criteria in order to attract a more diverse range of issuers to the Hong Kong market. While the approach to doing this was the subject of strong debate, with a wide range of differing views, the responses have served to inform a way forward.
5. In line with the Exchange's past publicly stated practice, the Exchange has adopted a transparent methodology in assessing the consultation responses on a qualitative, as well as a

² There were 11 invalid responses (e.g. blank questionnaires with only company / personal information filled).

quantitative, basis such that the judgements formed take into account the best interests of the market as a whole and the public interest.

6. Given the nature of the Concept Paper and the variety of responses received, the Exchange has pursued discussions with the SFC to determine their key regulatory considerations, in order that these can be addressed alongside the market feedback. Further discussion of these considerations is provided in section 6.
7. The proposed way forward contained in these conclusions therefore balances the concerns and feedback from all stakeholders, and sets out a firm direction for Hong Kong to proceed with the proposed changes to the Exchange's listing policies.

2.2 Methodology

8. The Exchange's aim in issuing the Concept Paper was to promote an informed, focused and coherent discussion and to elicit comments from a broad cross-section of the market. The Exchange wanted to understand if there was broad consensus for widening access to listings in the Hong Kong market by better accommodating the needs of New Economy companies, and if so, how the Exchange should go about doing so.
9. The effectiveness of the Exchange's process depends on the submission of original responses from a broad range of respondents that gave considered and substantive reasons for their views. The Exchange's methodology, accordingly, aims to accurately categorise respondents and identify different viewpoints. In line with the Exchange's past publicly stated practice, this requires a qualitative assessment of the responses in addition to a quantitative assessment.
10. The Exchange received varying types of responses from respondents. Some chose to answer question by question, some opted to write discursively laying out their thoughts in freeform, and some respondents chose to respond to only certain parts of certain questions or certain topics. For the purpose of a quantitative analysis, the Exchange has reviewed the responses and broke down each into its quantitatively measurable components for the purposes of tracking the different responses received.
11. In line with past practice, for the purposes of its quantitative analysis, the Exchange counted the number of responses received not the number of respondents those submissions represented. For example, a submission by a professional body was counted as one response even though that body/association may represent many individual members.
12. During the course of the consultation process, the Exchange also carried out multiple direct stakeholder engagements, in which the Exchange received fulsome feedback and had the benefit of being able to draw out more elaborate explanations of some points than was received through the written submissions. These direct stakeholder engagements have therefore helped us expand on some of the conclusions drawn from the responses received.

2.3 Market Feedback

13. Overall, respondents gave clear support to the enhancement of the Hong Kong's listing regime, with 91% supporting measures that would help diversify the Hong Kong market and, in particular, help attract more New Economy issuers.

2.3.1 Support for Early-stage Issuers

14. Market feedback on whether to permit pre-profit companies³ to list was highly supportive, with respondents acknowledging that the changing global business dynamic is driving companies to pursue market share before profit, and many businesses involved in R&D intensive sectors (e.g. healthcare and biotech) have legitimate capital markets needs ahead of having a revenue-generating commercial product or service. The market has demonstrated elsewhere that it is capable of assessing and valuing such companies, and Hong Kong's failure hitherto to acknowledge this within the existing listing regime is seen as outmoded.
15. However, feedback largely rejected the proposal that such issuers should be accommodated by a "lighter touch" approach to initial listing requirements, and pointed out that the low minimum market capitalisation threshold for New Board PRO, combined with lack of retail participation, would likely lead to poor secondary market liquidity.
16. Therefore, the Exchange's proposal for New Board PRO as a professionals-only segment with "lighter touch" entry criteria was not generally supported, and it was widely believed any pre-profit issuer should be required to meet more a stringent regulatory standard similar to the Main Board, have a higher minimum market cap threshold to limit listings to more established pre-profit companies, and that retail investors should be able to participate.

2.3.2 Support for WVR Structures

17. A large majority of feedback responding on the subject supported allowing WVR structures under either a disclosure only approach or with safeguards, but there were also strong views opposed to this. Respondents at one end of the spectrum saw this as a matter of freedom to contract between consenting parties, while at the other end WVRs were seen as a threat to shareholder democracy.
18. WVRs was seen, primarily, as a competitive issue, with the risk of missing out on the listing of a large number of significant Mainland New Economy companies considered a threat to Hong Kong's position as a premier global listing venue.
19. Nevertheless, a majority of respondents did not support migration to a US-style disclosure-only model and most respondents thought that WVR should be accompanied by safeguards that provide minimum shareholder protections against long-term entrenchment of founders and/or key management, and against the risk of expropriation by holders of WVRs.
20. The Concept Paper solicited feedback on the specific types of safeguards that should be adopted if WVRs were to be introduced in Hong Kong and most respondents supported those safeguards already outlined in the Exchange's 2015 WVR Concept Paper Conclusions⁴.
21. The Exchange also received the comment from some of the respondents that it is necessary to amend other Listing Rule requirements (e.g. those relating to operational independence) to accommodate the characteristics of New Economy company business models.

³ This term includes a broad scope of companies. For the purposes of this paper, the term "pre-profit" refers to companies that would not meet the profit, market capitalisation / revenue, or market capitalisation / revenue / cash flow tests of the Main Board and/or the cash flow test of GEM.

⁴ 2015 WVR Concept Paper Conclusions paragraph 130.

2.3.3 Support for Waivers of “Equivalent” Standards for Secondary Listings

22. Feedback generally supported allowing waivers from strict compliance with Hong Kong “equivalent” shareholder protection standards for secondary listings in Hong Kong for companies from New Economy sectors already listed on Recognised US Exchanges with a good compliance track record, including those with a “centre of gravity” in Greater China and with WVR structures.
23. Some respondents expressed concern as to whether Hong Kong would be giving up sovereignty over the Hong Kong market if such waivers were granted. However, it was pointed out by a large number of respondents that, as a free economy with an open capital account, Hong Kong investors were already free to purchase shares in overseas markets and, hence, there was little reason in practice to prevent investors from being able to invest in such companies in the market.
24. Support for granting a waiver was based on the US market’s robust regulatory regime and the “deterrence” factor of US regulatory and private enforcement mechanisms. It was suggested by some respondents that other jurisdictions with similarly robust standards, such as the UK, should also be considered for a similar waiver.
25. In support of granting waivers for companies with WVR structures already listed on Recognised US Exchanges, reference was also made to the fact that the US already has a large number of companies with WVR structures listed there, and has long experience with issues relating to WVR companies.
26. Some concern was nevertheless expressed over dispensations for Foreign Private Issuers in the US, which are allowed to avoid certain corporate governance norms considered fundamental in Hong Kong, including the holding of AGMs. Therefore, even if such US-listed companies were not required to meet Hong Kong “equivalent” standards, some minimum standards should be imposed.

2.3.4 Structural Approach: New Board Versus New Chapter

27. While a majority of respondents supported widening access to listing in Hong Kong via a New Board, most did so because they saw this as a pragmatic way of accommodating WVR or pre-profit issuers in the Hong Kong listing regime. Many, in fact, did question why a New Board was required, and suggested that New Economy issuers might be more easily incorporated via a new chapter of the Main Board, along the lines of Chapter 18 dealing with the specific needs of mining companies.
28. Concerns put forward regarding the establishment of a New Board included the following:
 - (i) introduction of more (and unnecessary) complexity into Hong Kong’s listing framework; and
 - (ii) high quality issuers would prefer to list on the Main Board, so a New Board may not be able to attract the higher quality names.
29. Further, respondents did not consider that it was sufficient justification to create a new separate board for exclusion from the main Hong Kong benchmark indices. Respondents pointed out that the Exchange does not control the inclusion decisions of the index providers, and noted that many major international funds track indices other than the Hang Seng indices. In any event, actions by the major global index providers to exclude or limit inclusion of WVR companies since

the publication of the Concept Paper⁵ has reduced the significance of this factor as justification for a separate board.

2.4 Conclusions and Proposed Way Forward

30. Since the Concept Paper's consultation period closed the Exchange has had considerable dialogue with the SFC. Drawing on the feedback received in response to the Concept Paper and subsequent regulatory discussions with the SFC, the Exchange has determined to proceed as set out in the following paragraphs.
31. In brief, the Exchange intends to accommodate the listing of issuers from the emerging and innovative sectors through two new chapters in the Main Board Listing Rules which will allow (a) Biotech issuers that are pre-revenue; and (b) innovative and high growth issuers that have WVR structures, to list on the Main Board, subject to appropriate disclosures and safeguards. The Exchange also proposes to modify the existing Main Board Listing Rules in relation to overseas companies (and make consequential changes to the 2013 JPS) to create a new secondary listing route to attract innovative issuers that are primary listed on a Qualifying Exchange.
32. The intention of the proposals in the Concept Paper is to attract more high growth companies from innovative sectors, or so-called "new economy" companies. However, as acknowledged in the Concept Paper, it is hard to define such companies, since they encompass a range of sectors and are not necessarily restricted to specific sectors. The definition is also likely to evolve over time. Therefore, the Exchange proposes to publish a guidance letter on the characteristics of an innovative company to provide guidance to the market in place of a fixed definition. The characteristics set out in the guidance letter will be used in the determination of an issuer's eligibility (a) to list with a WVR structure; and (b) for the new secondary listing route. In relation to pre-revenue companies, the Exchange proposes to initially limit eligible companies to Biotech companies, for the reasons set out below.

Pre-revenue issuers

33. The Exchange proposes to facilitate the listing of "new economy" companies which are pre-revenue through a new chapter in the Main Board Listing Rules, supplemented with a guidance letter on the factors that the Exchange will take into account when determining an applicant's eligibility/suitability to list on a pre-revenue basis. As companies which are unable to satisfy the Financial Eligibility Tests potentially carry additional risks to investors, the Exchange proposes to limit the applicants permitted to list under this new chapter to Biotech companies only. These companies will need to have a minimum expected market capitalisation at the time of listing of not less than HK\$1.5 billion. The Exchange will explore this proposed minimum expected market capitalisation requirement with market participants to ensure that it is set at the appropriate level given the other characteristics and conditions that applicants will be required to meet.

⁵ On 26 July 2017, FTSE Russell announced that constituents of all FTSE Russell indexes will in the future be required to have greater than 5% of the company's voting rights (aggregated across all of its equity securities, including, where identifiable, those that are not listed or trading) in the hands of unrestricted (free-float) shareholders as defined by FTSE Russell. On 31 July 2017, S&P Dow Jones Indices announced that the S&P Composite 1500 and its component indices (comprised of the S&P 500, S&P MidCap 400 and S&P SmallCap 600) will no longer add companies with multiple share class structures while existing index constituents are grandfathered in. On 12 June 2017, MSCI launched a consultation on a proposal to exclude non-voting shares from the MSCI Global Investable Market Indexes and MSCI US Equity Indexes in cases where the company level voting power is less than 25%. The majority of market participants that MSCI consulted supported this proposal. On 2 November 2017, MSCI announced it would publish a discussion paper on broadening the consultation to include a discussion of the treatment of all types of unequal voting structures. In the meantime, with immediate effect, MSCI announced it would treat any securities of companies exhibiting unequal voting structures as ineligible for addition to the MSCI ACWI Investable Market Index and MSCI US Investable Market 250 Index. This treatment would not affect current index constituents.

34. The rationale for this focus is that the activities undertaken by Biotech companies tends to be strictly regulated (e.g. by the US Food and Drug Administration) under a regime that sets external milestones on development progress. This will provide investors with a frame of reference to judge the value of companies that do not have traditional indicators of performance (e.g. revenue and profit). Biotech companies also make up a majority of companies in the pre-revenue stage of development seeking a listing. The higher minimum expected market capitalisation requirement will likely limit applicants to those Biotech companies which are more established and with more experienced management. The Exchange intends to further refine the detailed scope of Biotech companies through discussions with market participants experienced in this space before the formal consultation on the detailed proposals and proposed amendments to the Main Board Listing Rules.
35. Biotech companies applying for a listing under this new chapter must be primarily engaged in R&D, have unique features of innovation or intellectual property and have at least one product which has proceeded beyond the concept stage, and will be required to provide enhanced disclosures to ensure that investors are fully informed of the business and R&D risks involved. Given the pre-revenue nature of eligible Biotech companies and the requirement of having attracted investment from at least one sophisticated investor, the Exchange proposes that shares held by cornerstone investors at the time of listing will not count towards determining whether the company has met the minimum initial public float requirement for listing to facilitate a market-driven book-building process and help ensure post-listing liquidity. For the avoidance of doubt companies are not prohibited from having cornerstone investment in its offering as long as it could meet the initial public float requirement.

Issuers with a WVR structure

36. The Exchange proposes to facilitate the listing of high growth and innovative companies with a WVR structure through a new chapter in the Main Board Listing Rules (a consequential modification will be made to Rule 8.11 of the Main Board Listing Rules to create an exception to the general restriction against WVR). Applicants are limited to well-established companies with an Expected Market Cap of at least HK\$10 billion. If an applicant with a WVR structure has an Expected Market Cap of less than HK\$40 billion, the Exchange will also require the applicant to have at least HK\$1 billion of revenue in its most recent audited financial year. An applicant will also be required to establish that they are both eligible and suitable for listing with a WVR structure. In this connection, the Exchange will publish in a guidance letter the factors that will be taken into account when assessing whether such an applicant is eligible and suitable for listing.
37. The applicant will be required to be an innovative company in accordance with the characteristics set out in the guidance letter and will also be required to demonstrate other characteristics to justify the rationale for the company and the proposed holders to have WVRs. The Exchange will also reserve the right to reject an applicant on suitability grounds, including if its WVR structure is an extreme case of non-conformance with governance norms (for example if the ordinary shares carry no voting rights at all). Issuers with WVR structures must also put in place the required safeguards to provide an appropriate level of investor protection.

Facilitating secondary listings

38. The Exchange proposes to modify the existing Main Board Listing Rules in relation to overseas companies (and make consequential changes to the 2013 JPS) to create a new secondary listing route to attract established issuers from emerging and innovative sectors that have at a good record of compliance for at least two years on a Qualifying Exchange and an expected market capitalisation at the time of secondary listing in Hong Kong of at least HK\$10 billion. A secondary listing applicant (i) with a WVR structure; and/or (ii) with a “centre of gravity” in the Greater China region will also be required to meet the revenue test applicable to WVR applicants (see

paragraph 36 above) if it has an expected market capitalisation at the time of secondary listing in Hong Kong of less than HK\$40 billion.

39. The current ban on companies with a “centre of gravity” in Greater China from secondary listing in Hong Kong will be removed in relation to such companies.
40. Grandfathered Greater China Companies and Non-Greater China Companies will not be required to amend their constitutional documents to demonstrate that they are subject to shareholder protection standards at least equivalent to those in Hong Kong.⁶ Instead the Key Shareholder Protection Standards which an issuer would otherwise be required to demonstrate equivalence to will be included in the Main Board Listing Rules and imposed as a condition of continued listing. Also, if these companies have a WVR structure, they will be able to list in Hong Kong without modifying that structure under a “disclosure only” approach, provided that they can meet the expected market capitalisation requirement for a WVR company at listing and provided that its WVR structure is not an extreme case of non-conformance with governance norms that renders the company unsuitable for listing.
41. All applicants listed under the new concessionary route will be entitled to automatic waivers. These will be codified in the Main Board Listing Rules from those currently granted (under certain conditions) to secondary listed issuers by the 2013 JPS. For Greater China Companies, if the bulk of trading in their shares migrates to Hong Kong on a permanent basis⁷, these automatic waivers will fall away after a 12 month grace period (other than common waivers normally granted for dual primary listings).

Additional amendments to the Main Board Listing Rules in relation to “new economy” companies

42. The Exchange notes the views expressed by some respondents urging the Exchange to make the Main Board Listing Rules more appropriate to the characteristics of “new economy” companies, in particular calling for greater flexibility to the current approach in respect of delineation of business, reliance and competition. The Exchange will conduct a review of the existing rules and guidance in these respects and will publish guidance to facilitate the listing of “new economy” issuers within the existing regulatory framework.

Takeovers Code

43. Consistent with the listing policy of accommodating the listings of innovative issuers and for competition purposes, the SFC have indicated to the Exchange that their current thinking is that the Takeovers Code would not apply to secondary listings of Greater China Companies in so far as they would be regarded as “public companies in Hong Kong” for the purposes of the Takeovers Code; but that if the bulk of trading moves to Hong Kong and therefore a company is treated as having a dual primary listing in Hong Kong, the Takeovers Code would apply at that point. Further consideration will be given to this after the publication of these consultation conclusions. It is anticipated that any consultation on the Takeovers Code that may follow would be separate to the Exchange’s planned Rules consultation.

⁶ The Exchange will consider further whether, in some circumstances, it may be necessary for a company to change its constitutional documents to ensure that the rights of its shareholders, as set out in the Key Shareholder Protection Standards, are adequately protected.

⁷ The Exchange proposes that in the event that 55% of the total trading volumes in the shares of the issuer take place on the Exchange in the most recent fiscal year, the Exchange will consider that the bulk of trading in the shares of the issuer has migrated to Hong Kong on a permanent basis.

Miscellaneous

44. Details of the Exchange's proposals to better accommodate the listing of issuers from emerging and innovative sectors are discussed in section 6.

45. The Exchange is in the process of finalising the details of the proposals and has commenced the drafting of the proposed amendments to the Main Board Listing Rules to put the proposals into effect. The Exchange intends to further refine the proposals first through discussions with stakeholders to ensure that the Exchange has the benefit of their views. The Exchange will then conduct a formal consultation on the detailed proposals and proposed amendments to the Main Board Listing Rules. The Exchange expects to begin the discussions shortly after the publication of these consultation conclusions with a view to proceeding with the formal consultation on the proposed Rule amendments in the first quarter of 2018.

3 INTRODUCTION

3.1 Background

46. The Concept Paper sought market feedback on a proposal to broaden capital markets access in Hong Kong by opening up to a more diverse range of issuers. For the purposes of generating debate and encouraging constructive market feedback, the Concept Paper adopted a “straw man” proposal of a two-segment New Board. The New Board proposal set out the following two distinct segments for respondents to comment on:
- (a) New Board PRO, targeted at earlier stage companies that do not meet the financial or track record criteria for GEM or the Main Board; and
 - (b) New Board PREMIUM, targeted at companies that meet the existing financial and track record requirements of the Main Board, but which are currently ineligible to list in Hong Kong because they have non-standard governance features.
47. New Board PRO was proposed to be subject to a “lighter touch” approach to initial listing requirements and be open to professional investors only, while New Board PREMIUM would be open to retail investors and accordingly adopt a regulatory approach in line with the Main Board requirements.

Reasons for the Consultation

48. The consultation was undertaken pursuant to a holistic review of the Hong Kong market structure, which highlighted high concentrations within the market particularly in old economy sectors, and a need to better attract New Economy issuers.
49. Specifically, certain gaps were identified within the current listing regime relating to the following categories of issuers:
- (a) Pre-profit companies;
 - (b) Companies with non-standard governance features; and
 - (c) Mainland companies that wish to secondarily list in Hong Kong.
50. Questions contained in the Concept Paper were intended to seek market views on widening listing access to these categories of issuers, and solicit feedback on the appropriate regulatory approach if such issuers were allowed to list in Hong Kong.

3.2 Number of Responses and Nature of Respondents

51. The consultation period ended on 18 August 2017, although the Exchange did accept responses submitted after this date⁸.
52. The Exchange received 360 valid responses⁹ to the Concept Paper from a broad range of respondents that were representative of all stakeholders in the Hong Kong market. 167 responses contained original and substantive content, while 193 contained very short responses

⁸ 23 valid responses were received after the deadline.

⁹ There were 11 invalid responses (e.g. blank questionnaires with only company / personal information filled).

with no rationale. There were 245 company responses and 115 personal responses. A breakdown of the responses is shown in *Figure 1* and *Figure 2* below.

Figure 1 – Breakdown of Company Responses

Respondent Category	Number of Responses	Percentage of Company Responses
Accountancy Firms	9	3.7%
Associations	45	18.4%
Brokers and HKEX Participants	43	17.5%
Investment Managers	35	14.3%
Issuers	92	37.5%
Law Firms	21	8.6%
Total	245	100.0%

Figure 2 – Breakdown of Personal Responses

Respondent Category	Number of Responses	Percentage of Personal Responses
HKEX Participant Staff	31	27.0%
Institutional Investor Staff	17	14.8%
Listed Company Staff	8	7.0%
Retail Investor	37	32.1%
None of the Above ¹⁰	22	19.1%
Total	115	100.0%

All the responses are available on the HKEX website¹¹ (except those marked as anonymous) and a list of the respondents (other than those who requested anonymity) is given in Appendix I. The Exchange would like to thank all those who responded.

53. This paper should be read in conjunction with the Concept Paper, which is posted on the HKEX website¹².

¹⁰ Includes a view from a member of the Legislative Council of Hong Kong.

¹¹ Responses received to the Concept Paper can be accessed at:

http://www.hkex.com.hk/News/Market-Consultations/2016-to-Present/Responses_December_2017_2?sc_lang=en

¹² The Concept Paper can be accessed at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017061.pdf>

4 METHODOLOGY

4.1 The Purpose of the Exchange's Methodology

54. The Exchange's aim in issuing the Concept Paper was to promote an informed, focused and coherent discussion and to elicit comments from a broad cross-section of the market. The Exchange wanted to understand if there was broad consensus for widening access to listings in the Hong Kong market by better accommodating the needs of New Economy companies, and if so, how the Exchange should go about doing so.
55. In reviewing and drawing conclusions from the consultation responses, the Exchange's goal has been to ensure that we come to a balanced view in the best interest of the market as a whole and in the public interest.
56. The effectiveness of this process depends on the submission of original responses from a broad range of respondents that give considered and substantive reasons for their views. The Exchange's methodology, accordingly, aims to accurately categorise respondents and identify different viewpoints. In line with the Exchange's past publicly stated practice, this requires a qualitative assessment of the responses in addition to a quantitative assessment.

4.2 Identifying the Category of Respondents

57. The Exchange published a questionnaire with the Concept Paper that respondents could complete and submit to us. The questionnaire asked respondents:
 - (a) Whether their response represented the view of their institution or their personal view; and
 - (b) to choose one of the following categories that best described them:
 - (i) For institutions: "HKEX participant"; "listed company"; "professional body"; "market practitioner"; or "none of the above".
 - (ii) For individuals: "listed company staff"; "HKEX participant staff"; "retail investor"; "institutional investor staff"; or "none of the above".
58. In this Conclusions Paper, respondents are categorised, in the absence of manifest error, according to these descriptions. If a respondent did not use a questionnaire to respond or chose no description or multiple descriptions of themselves on a questionnaire, the Exchange used its best judgement to categorise the respondent using the most appropriate description.
59. Given the "market practitioners" comprised different categories of respondents, the Exchange used its best judgement to assign an appropriate sub-category. These were "accountancy firm"; "broker and HKEX participant"; "investment manager"; and "law firm".
60. The Exchange has categorised professional bodies as a single group rather than strictly assigning them, individually, to other categories (e.g. by assigning brokers' associations to the "HKEX participant" category). This is in line with the Exchange's past practice. Subjective judgement is required to assign professional bodies to other categories and some do not fit easily with other categories of respondents. Nevertheless the Exchange has attempted, in these conclusions, to accurately reflect the opinions of various sections of the market by mentioning certain professional bodies in the context of categories to which they are most closely related.

61. Given the considerable variances in the types of “investment manager”, the Exchange has sub-categorised them into the following groups: “long-only / hedge fund”; “private equity / venture capital”, and drawn a distinction between their views where relevant.
62. It is not the Exchange’s practice to categorise “investment managers” by their AUM for the purposes of analysing consultation responses, as the Exchange believe that the size of an institution’s global assets does not mean that the Exchange should necessarily attach more insight to their arguments or viewpoint. This would also raise issues as to the treatment of representative bodies that have considerable variances in number and type of members. It is not the Exchange’s practice to categorise professional bodies by the size and nature of their membership.

4.3 Qualitative Analysis

63. The Exchange performed a qualitative analysis to enable it to properly consider the broad spectrum of respondents and their views, either for or against, a particular concept. A qualitative analysis was particularly important in this case, as the questions posed by the consultation were conceptual and did not propose explicit Rule changes. This meant some respondents’ submissions were discursive rather than answering the specific questions with specific answers. Secondly, some individual / corporate members and some other respondents claimed to represent a number of institutions. Thus, a qualitative analysis enabled the Exchange to give due weight to responses submitted on behalf of multiple persons or institutions and the underlying rationale for their position.
64. In performing its qualitative analysis, the Exchange conducted an assessment of the following matters:
 - (a) The nature of the respondents – the Exchange determined whether the views originated broadly from many categories of respondent, or only from particular categories of respondent.
 - (b) The reason given for each respondent’s views – the Exchange considered whether respondents supported or objected, in principle or philosophically, to a particular proposal or else had views based on the potential practical consequences of the implementation of a particular regime and the ability of the regulators to minimise or eliminate those practical consequences.
 - (c) New evidence – the Exchange determined whether respondents put forward new evidence or arguments to support their views, which the Exchange was not previously aware of or had not considered.

4.3.1 Direct Stakeholder Engagement

65. During the consultation period, the Exchange held multiple meetings with various stakeholder groups to discuss and explain the Concept Paper’s proposals at which the Exchange provided only the information that was made available publicly in the Concept Paper. At these meetings the Exchange received fulsome feedback and was able to draw out a more elaborate explanation of some of the points the Exchange had received through written submissions.

4.4 Quantitative Analysis

66. The Exchange performed an analysis to determine the support, in purely numerical terms, for nearly all the questions in the Concept Paper. The questions were designed to be targeted at

specific topics but open-ended enough to allow respondents to freely state their opinions. The Exchange received varying types of responses from respondents with some choosing to answer question by question, some opting to write discursively laying out their thoughts in freeform, and some respondents chose to respond to only certain parts of certain questions or certain topics. For the purpose of a quantitative analysis, the Exchange reviewed the responses and, where possible, broke down each into its quantitatively measurable components for the purposes of tracking the different responses that the Exchange received. The result of this analysis forms Appendix II.

4.4.1 Counting Responses not Respondents

67. For the purposes of its quantitative analysis, the Exchange counted the number of responses received not the number of respondents those submissions represented. This means:
- (a) A submission by a professional body is counted as one response even though that body/association may represent many individual members.
 - (b) A submission representing a group of individuals is counted as one response¹³.
 - (c) A submission by a law firm representing a group of market practitioners (e.g. sponsor firms / banks) is counted as one response¹⁴
68. However, as indicated in paragraph 63, when undertaking qualitative analysis of responses, the Exchange has taken into account the number and nature of the persons or firms represented by other respondents.
69. The Exchange's method of counting responses, not the respondents they represent, is the Exchange's long established publicly stated policy. This is stated in: the three consultation conclusions for the "Combined Consultation Paper" in November 2008 and July and October 2009; "Consultation Conclusions on New Listing Rules for Mineral and Exploration Companies (May 2010)"; the consultation conclusions on internal control¹⁵, on the disclosure of financial information¹⁶; and in the 2015 WVR Concept Paper Conclusions.

¹³ One response involved a "Submission Group" and listed out the 14 entities and 9 individuals that it represented.

¹⁴ The law firms Herbert Smith Freehills, Charltons and Addleshaw Goddard represented groups of market practitioners (see Appendix I).

¹⁵ Consultation Conclusions on Risk Management and Internal Control: Review of the Corporate Governance Code and Corporate Governance Report (December 2014).

¹⁶ Consultation Conclusions on Review of Listing Rules on Disclosure of Financial Information with reference to the New Companies Ordinance and Hong Kong Financial Reporting Standards and Proposed Minor/Housekeeping Rule Amendments (February 2015).

5 MARKET FEEDBACK AND CONCLUSIONS

5.1 Introduction

70. In this chapter the Exchange provides a qualitative analysis of the response to each of the Concept Paper questions, setting out:
- (a) the nature of the respondents that commented;
 - (b) the reasons for their views; and
 - (c) whether they presented new evidence for the Exchange's consideration.
71. In addition, the Exchange also provides a quantitative analysis of responses in purely numerical terms. A less detailed analysis of questions is provided where the Exchange received few comments.

5.2 Question 1

What are your views on the need for Hong Kong to seek to attract a more diverse range of companies and, in particular, those from New Economy industries to list here? Do you agree that the New Board would have a positive impact on Hong Kong's ability to attract additional New Economy issuers to our market?

Please give reasons for your views.

5.2.1 Qualitative Analysis

Breakdown by Nature of Respondent

72. Respondents across all categories agreed that Hong Kong needs to attract a wider diversity of issuers to its market.
73. Several market practitioners, notably one large pension fund manager, questioned the "arbitrary" distinction between New Economy and "old economy". Further, several responses from the legal and accounting community cited the difficulty of defining New Economy. However, the majority of respondents across all categories believed that Hong Kong needs to do more to attract New Economy companies to list here.
74. Feedback as to whether a New Board was the best way to attract New Economy issuers to the Hong Kong market was nuanced. While a majority of respondents across all categories supported the New Board as a means of widening access to listings, a significant number of individual and professional respondents alike, including respondents ranging from the Law Society to private equity and venture capitalists, questioned why these companies could not be accommodated on the Main Board.

Reasons for Views

75. Respondents agreed that the Hong Kong market is highly concentrated, and does not feature sufficient New Economy and growth exposures. It was pointed out that Hong Kong's Listing Rules do not accommodate the needs of New Economy companies.
76. Many cited competition from other jurisdictions for New Economy issuers and the loss to the Hong Kong economy if these issuers chose to list elsewhere as a major reason for supporting the proposals. It was also pointed out that Hong Kong investors are free to go elsewhere to invest if the Hong Kong market doesn't offer the investment choices they seek (and indeed have done so).
77. Some respondents associated the lack of New Economy companies listed here with an overall lack of innovation in Hong Kong, and therefore saw developing the listing framework as a key component of supporting Hong Kong's New Economy ecosystem.
78. Several respondents highlighted the need for a definition of New Economy by questioning, for example, whether a company in an "old economy" sector that used a new method of distribution could be considered to be New Economy. No clear preference was stated, however.

5.2.2 Quantitative Analysis

79. Most respondents responded to this question or addressed this concept in their response. Of those that answered, the vast majority stated their support for the Exchange to seek to attract more diverse companies to Hong Kong (328 responses, 91%). There was a very small minority that disagreed (14 responses, 4%) and their responses tended to be more extreme claiming new companies may or may not be New Economy, will be low quality or will damage Hong Kong's corporate governance standards. There was another very small minority group that expressed no views (18 responses, 5%).

5.2.3 Conclusions

80. Having considered the responses, the Exchange concludes that there is strong support for widening the listing criteria in order to better accommodate the needs of "new economy" companies. The Exchange acknowledges, however, that it is hard to define the so-called "new economy" companies, since they compass a range of sectors and is not necessarily restricted to specific sectors. The definition is also likely to evolve over time. Therefore, the Exchange proposes to publish a guidance letter on the characteristics of an innovative company to provide guidance to the market in place of a fixed definition.

5.3 Question 2

What are your views on whether the targeted companies should be segregated onto a New Board, rather than being included on the Main Board or GEM?

Please give reasons for your views.

5.3.1 Qualitative Analysis

Breakdown by Nature of Respondent

81. Few respondents provided extensive discussion in response to this question, with the vast majority simply answering “agree”. Many of the respondents that did respond substantively and who considered the point generally questioned the need to introduce a New Board in order to accommodate the needs of New Economy issuers and would prefer inclusion of these issuers on the Main Board were this to have been presented as an option.

Issuers

82. The majority of issuers supported launching a New Board to attract New Economy companies, though few provided any significant explanation for their position.

Brokers and HKEX Participants

83. The majority of brokers and HKEX Participants were also broadly in favour of introducing a New Board, though a significant number pointed out that New Economy companies could be included on the Main Board.

Investment Managers

84. Investment managers that provided a detailed explanation for their position were split in terms of whether to accommodate New Economy companies on the Main Board or via a New Board.

Law Firms

85. Most law firms were in favour of segregation via a New Board, but it was notable that the Law Society questioned why the needs of New Economy companies could not be accommodated on the Main Board, similar to the way in which Chapter 18 of the Main Board Listing Rules provides a special framework for the special needs of mining companies.

Accountancy Firms

86. Those accounting firms that provided an explanation of their views favoured incorporating pre-profit and WVR companies on the Main Board or GEM, rather than creating a New Board.

Individuals

87. Individual respondents were highly divided on the question of whether or not to segregate onto a New Board. However, there was very limited support for incorporating these issuers on GEM and those opposed to a New Board generally favoured widening Main Board access.

Reasons for Views

88. One of the most cited reasons in favour of segregation via a New Board was clarity to investors as to the nature of the companies on the board. Issuers supporting the New Board considered that it may better distinguish them as New Economy companies, while certain market practitioners believed that the branding of a New Board may help attract New Economy issuers.
89. Some supporters of segregation, notably from the legal profession, expressed a certain degree of indifference, so long as the basis of segregation and the applicable rules were clear.

90. Many of those in favour of segregation, however, supported the creation of a New Board only as a pragmatic means to achieving widened access to listing in Hong Kong, and therefore would prefer inclusion of these issuers on the Main Board were this to have been presented as an option.
91. Those opposing segregation onto a New Board cited concerns over increased complexity of the listing framework, and insufficient justification for segregation of New Economy companies onto a separate board. The initial liquidity of the New Board, especially for New Board PRO, was also a concern.
92. Several venture capital and private equity respondents believed that high quality New Economy companies were seen as more likely to wish to list on a main board, which is the option available to them on US exchanges. One respondent in this category also questioned whether “big name” Mainland New Economy companies would want to be listed on a “subordinate” board.

New Evidence

93. One significant justification for segregation onto a New Board for WVR companies was that, based on the Hang Seng Index Company’s criteria, non-Main Board listings would not be included in key benchmark local indices and thus passive index funds would not be “forced” to buy shares in companies with WVR structures. However, it was pointed out that most international investment funds do not benchmark against Hang Seng indices.
94. Further, subsequent to the issuance of the Concept Paper, major global index providers have tightened their criteria with regard to the inclusion of WVR companies. For example, S&P Dow Jones announced that, as of 1 August 2017, it would exclude companies with multiple-class share structures from entering its S&P Composite 1500 and constituent indices¹⁷, while FTSE Russell announced on 26 July 2017 that it would introduce a requirement that companies included in its indices would need to have at least 5% voting rights held by unrestricted public shareholders¹⁸. In addition, MSCI launched a consultation¹⁹ on 12 June 2017 that proposes not to include non-voting shares for new potential constituents in the MSCI GIMI and the MSCI US Equity Indices in the cases when company level “voting power²⁰” of listed shares is less than 25%, while existing non-voting index constituents would be maintained in the index if the company listed “voting power” is above 16.67%. The majority of market participants that MSCI consulted supported this proposal. On 2 November 2017, MSCI announced it would publish a discussion paper on broadening the consultation to include a discussion of the treatment of all types of unequal voting structures. In the meantime, with immediate effect, MSCI announced it would treat any securities of companies exhibiting unequal voting structures as ineligible for addition to the MSCI ACWI Investable Market Index and MSCI US Investable Market 250 Index. This treatment would not affect current index constituents.

5.3.2 Quantitative Analysis

95. The respondents were broadly in favour of segregation with a large portion (239 responses, 66%) agreeing to segregation of some form, either via a New Board or a new chapter, and a portion

¹⁷ The announcement can be found at:

https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/561162_spdjimulti-classsharesandvotingrulesannouncement7.31.17.pdf?force_download=true

¹⁸ The announcement can be found at:

<http://www.ftse.com/products/index-notices/home/getmethodology/?id=2336290>

¹⁹ The announcement can be found at:

<https://www.msci.com/documents/1296102/1220bc04-83bd-44c1-8527-a4014ef51c8d>

²⁰ Defined as the voting rights of listed shares over total voting rights of the company

(53 responses, 15%) against any type of segregation for New Economy companies. There was one final portion which provided no views (68 responses, 19%).

5.3.3 Conclusions

96. The reasons cited in the Concept Paper for accommodating the needs of New Economy companies via a New Board were as follows:
- (a) To uphold the quality and reputation of the Main Board as Hong Kong's "premier" board;
 - (b) to satisfy regulatory expectations that companies with WVR structures would be "ring-fenced"; and
 - (c) to exclude companies with WVR structures from key benchmark indices.
97. Among other factors, an equity market's success is a function of the quality of the companies listed on it. Therefore, as many of the respondents made clear, the importance of attracting high quality New Economy issuers should be paramount. The Main Board is, on balance, likely to be more attractive to high quality issuers, whom have the option of multiple other listing venues around the world.
98. In terms of segregation based on index inclusion considerations, the actions by the index providers themselves may have superseded the aforementioned justification for segregation of these issuers onto a separate board.
99. The Exchange is also sensitive to the concerns reflected in the feedback that a New Board may introduce unnecessary complexity to the listing framework and that other means of accommodation of New Economy companies should be explored.
100. Further consideration has been given to alternative ring-fencing measures, and the Exchange believes that appropriate ring-fencing can be achieved within the Main Board. Details of such measures are set out in section 6.
101. There was little support to use GEM as the venue for attracting New Economy companies.
102. For the reasons stated in paragraphs 96 to 101, the Exchange is persuaded that the introduction of new chapters for innovative companies into the Main Board Listing Rules, tailored to the needs of the targeted issuers, is preferable to the creation of a New Board.

5.4 Question 3

If a New Board is adopted, what are your views on segmenting the New Board into different segments according to the characteristics described in this paper (e.g. restriction to certain types of investor, financial eligibility etc.)? Should the New Board be specifically restricted to particular industries?

Please give reasons for your views.

5.4.1 Qualitative Analysis

Breakdown by Nature of Respondent

Issuers

103. The views of issuers were divided as to whether the New Board should be segmented based on different characteristics. However, there was general opposition to restriction of access to professional investors only.

Brokers and HKEX Participants

104. Brokers, on balance, opposed segmentation within the New Board. Of the few that supported segmentation within the New Board, only one supported segmentation between retail and professional investors.

Investment Managers

105. Investment managers generally also opposed segmentation within the New Board. Of those that were supportive, segmentation based on the needs of certain sectors (e.g. biotech) was highlighted as a potential need.

Law and Accountancy Firms

106. The legal and accounting respondents were largely aligned in their opposition to segmentation of the New Board.

Individuals

107. Individual respondents were broadly opposed to segmentation of the New Board.

Reasons for Views

108. Many respondents considered sub-segmentation of a New Board would add further unnecessary complexity to the Hong Kong market structure. In particular, it was felt that if categorisations were too narrowly defined, there could be adverse consequences for the market in terms of liquidity, as well as broader appeal to investors and issuers.
109. A number of brokers cited practical difficulties in segmenting professional and retail clients as a reason for opposing segmentation.
110. It was felt by some respondents that, if a New Board were pursued, it should have a clear focus and concentrate resources, and that segmentation would cause excessive dilution of such focus. Some respondents considered that New Board PREMIUM to be unnecessary, given the overlap with the Main Board in terms of admission criteria and investors.

5.4.2 Quantitative Analysis

111. Respondents were split on the topic of segmenting the New Board as it may cause confusion in the market. There were more respondents that disagreed (139 responses, 38%) than agreed (114 responses, 32%) and there were 107 responses (30%) that did not touch on this topic. Respondents that agreed were skewed towards issuers that simply filled out the questionnaire saying "agree" without further explanation or rationale.

5.4.3 Conclusions

112. The Exchange is persuaded by the arguments that the creation of separate listing segments/boards would adversely affect liquidity, dilute focus and create excessive complexity in the listing framework. For the reasons set out in paragraphs 96 to 101, the Exchange is persuaded that the introduction of new chapters for innovative companies into the Main Board Listing Rules, tailored to the needs of the targeted issuers, is preferable to the creation of a New Board.

5.5 Question 4

What are your views on the proposed roles of GEM and the Main Board in the context of the overall listing framework?

Please give reasons for your views.

5.5.1 Qualitative Analysis

Breakdown by Nature of Respondent

113. Few respondents questioned the existing roles of GEM and the Main Board. There was no significant variation in views on the proposed roles of GEM and the Main Board between the different categories of respondent to this question. Most respondents who were supportive of the New Board were also supportive of the overall listing framework outlined.

Reasons for Views

114. Overall, the Main Board's positioning as the premier board was supported, and a number of parties believed that there was still potentially a role for GEM in serving "old economy" SMEs.
115. Among respondents expressing concerns over the proposed listing framework, many considered that the New Board would, in time, marginalise GEM. Some respondents expressed the view that, were the New Board to become successful, it would marginalise both the Main Board and GEM.

5.5.2 Quantitative Analysis

116. As the question was an open question which resulted in a large range of different responses, no quantitative analysis was possible.

5.5.3 Conclusions

117. The Exchange's conclusion from the feedback is that the role of the Main Board as Hong Kong's premier listing board should remain intact, while GEM continues to serve a legitimate purpose for the capital raising needs of SMEs from non-New Economy sectors.
118. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board. The concerns expressed by some of the respondents that the Main Board and GEM may be marginalised over time through the creation of a New Board should therefore fall away.

5.6 Question 5

What are your views on the proposed criteria for moving from New Board PRO to the other boards? Should a public offer requirement be imposed for companies moving from New Board PRO to one of the other boards?

Please give reasons for your views.

5.6.1 Qualitative Analysis

Breakdown by Nature of Respondent

119. There was broad support for the proposal that companies listed on New Board PRO seeking to list on a superior board or segment should meet the full criteria and undergo the full vetting process of the relevant board.
120. There was little overall support for the imposition of a public offer requirement, with individual respondents being the most likely to favour this option.

Reasons for Views

121. Respondents generally considered that it was not appropriate to allow companies to circumvent the vetting processes of the boards on which they are seeking to be listed. Since it was proposed that companies listing on New Board PRO would be exempted from issuing a Prospectus and be subject to “lighter touch” vetting standards, it was seen as requisite that, when applying to another Exchange board or segment, they should meet these minimum obligations.
122. There was no extensive discussion offered as to why a public offer requirement should or should not be imposed in this circumstance. The limited number of respondents that offered a reason considered that this should be a matter dictated by the company’s needs.

5.6.2 Quantitative Analysis

123. Due to the largely open nature of this question which resulted in a large range of different responses, no quantitative analysis was possible.

5.6.3 Conclusions

124. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will not establish New Board PRO.

5.7 Question 6

What are your views on the proposed financial and track record requirements that would apply to issuers on New Board PRO and New Board PREMIUM? Do you agree that the proposed admission criteria are appropriate in light of the targeted investors in each segment?

Please give reasons for your views.

5.7.1 Qualitative Analysis

Breakdown by Nature of Respondent

125. A large number of respondents did not provide a response to this question, or did not provide a justification for their views. However, those respondents that did provide a detailed response displayed a wide range of views, and there was no clear bias based on the category of respondent.
126. At one end of the spectrum, some respondents considered that the admission requirements for New Board PRO and New Board PREMIUM were too high and should be lower still, particularly in respect of the market capitalisation thresholds.
127. At the other end of the spectrum, admission criteria were considered too low and a higher market capitalisation threshold should be imposed on both segments.
128. While respondents supported allowing the listing of pre-profit companies, in respect of New Board PRO, it was felt that the admission criteria was too low and that companies listing on this segment should be subject to full Main Board-standard requirements.

Reasons for Views

129. Most discussion centred on New Board PRO. On financial criteria, allowing pre-profit companies to list was uncontroversial among respondents, who believed that the market was capable of analysing such companies and valuing them. In particular, for certain R&D heavy sectors, such as healthcare and life sciences, many respondents believed there appeared to be a clear need to accommodate pre-profit (and pre-revenue) issuers.
130. However, a majority of respondents opposed lowering the vetting standards for companies listing on New Board PRO, as even experienced institutional investors considered that they would lose the additional comfort afforded by these standards.
131. While some issuers and venture capital firms supported lower hurdles, a convincing case was put forward by others from these groups that high quality issuers would welcome high entry hurdles, since this would represent to investors a mark of quality. Indeed, if a large number of lower quality issuers listed on this segment, this would serve as disincentive for higher quality issuers to list on the same segment in the future.
132. Concern was also expressed about the low market capitalisation threshold and high minimum number of investors for New Board PRO, which combined with a lack of retail investors, posed a high risk of poor secondary market liquidity.
133. In respect of New Board PREMIUM, several respondents argued that given the existence of WVRs on that segment, the market capitalisation threshold should be higher than the Main Board, so as to restrict the use of WVRs to larger and more established companies.

New Evidence

134. Several respondents drew a helpful distinction between two types of pre-profit companies:
 - (a) relatively established companies with experienced management teams that have already previously raised funds from venture capital investors; and

- (b) early-stage start-ups with less experienced management teams and less developed business plans.

These respondents argued that the former type, which includes many R&D focused companies, would certainly be suitable for listing. In fact, these respondents believed Hong Kong's lack of a listing framework is leaving many good R&D companies from this region notably from the healthcare sector no option but to seek a listing in the US. In respect of the second type of company, it was questioned whether or not such companies are ready for listing at all, and it was pointed out that there is a vibrant network of venture capital investors in Hong Kong that would be better suited to provide capital to such firms, rather than public market investors.

5.7.2 Quantitative Analysis

- 135. Since this was posed as an open-ended question which resulted in a large range of different responses, no quantitative analysis was possible.

5.7.3 Conclusions

- 136. The Exchange is persuaded by the responses that, while there is a clear need to provide a framework for pre-profit companies to list in Hong Kong, such issuers should be subject to high standards in line with the Main Board requirements. This would be expected to help maintain the quality of the market and also attract higher quality issuers.
- 137. Since companies which are pre-profit/pre-revenue potentially carry additional risks, the Exchange is persuaded by the feedback from respondents to limit the framework for listing pre-revenue companies initially to Biotech companies whose activities tend to be strictly regulated under a regime that sets external milestones on development progress, which will provide investors with a frame of reference to judge the value of companies that do not have traditional indicators of performance (e.g. revenue and profit).

5.8 Question 7

What are your views on whether the Exchange should reserve the right to refuse an application of listing on New Board PRO if it believes the applicant could meet the eligibility requirements of New Board PREMIUM, GEM or the Main Board?

Please give reasons for your views.

5.8.1 Qualitative Analysis

Breakdown by Nature of Respondent

- 138. Few respondents gave a detailed elaboration of their reasons underlying their views on this question. Investors generally supported the idea that the Exchange should have the right to refuse an application to New Board PRO if an applicant meets the requirements of a superior segment or board. Other respondent categories had mixed views.

Reasons for Views

- 139. Those that opposed the idea of the Exchange having a right to refuse applicants to New Board PRO if they are able to meet the requirements of another segment or board generally felt that

this was a matter of choice for the issuer, and that it was not for the Exchange to dictate which segment they chose to list on. Opponents also considered that the issuer should have the right to choose to restrict investment in their shares to professional investors only. The expectation that the costs of listing on New Board PRO would be lower was also a factor in some opposing views.

140. Those supporting the right of the Exchange to refuse applicants meeting other boards' requirements considered that New Board PRO was designed with a purpose of listing smaller early-stage companies, and that larger and more established issuers should not take advantage of it to circumvent higher vetting standards.

5.8.2 Quantitative Analysis

141. 170 respondents (47%) agreed that the Exchange should maintain the right to refuse an application while 81 respondents (23%) disagreed. There were 109 respondents (30%) that did not address this question.

5.8.3 Conclusions

142. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will not establish New Board PRO.

5.9 Question 8

What are your views on the proposed requirements for minimum public float and minimum number of investors at listing? Should additional measures be introduced to ensure sufficient liquidity in the trading of shares listed on New Board PRO? If so, what measures would you suggest?

Please give reasons for your views.

5.9.1 Qualitative Analysis

Breakdown by Nature of Respondent

143. Respondents supported the proposed minimum public float and investor requirements proposed. Certain respondents even recommended higher free float requirements of up to 60%.
144. A number of market practitioner respondents that provided more discursive responses on the overall proposals did, however, raise wider concerns as to the combination of potentially small companies with only professional participation on New Board PRO, alongside the proposed minimum free float and high minimum number of investors required.
145. Respondents supported the minimum public float and minimum number of investors required for New Board PREMIUM as they were comfortable with Main Board requirements and it allowed retail investor participation.

Reasons for Views

146. Respondents raising concerns as to liquidity on New Board PRO pointed out that, given the low market capitalisation threshold for entry and large number of required investors at issuance, the

absolute value of shares in circulation for New Board PRO companies would likely be too small to attract institutional investors, since the work required to analyse a company would not be worth the effort for the small amount of capital that could be put to work. Therefore, if retail investors are also not allowed to participate, the minimum free float level proposed and the eligible investor base would likely lead to poor secondary market liquidity.

147. There was limited discussion of additional measures to support liquidity on New Board PRO. Several respondents suggested minimum holding periods for controlling shareholders, and a restriction on connected parties being considered part of the public float. The response from one accounting firm, in addition to multiple other responses from issuers and market participants, encouraged the Exchange to explore market making schemes more broadly across the Hong Kong market.
148. Brokers and investment managers pointed out that the 300 minimum number of investors requirement on the Main Board is rarely a concern due to the inclusion of retail investors. The inclusion of retail investors is an important factor as it allows for a wider investor base and improves secondary market liquidity, which in turn can support more efficient price discovery and better valuations.

5.9.2 Quantitative Analysis

149. This question was split into three questions and only a handful of respondents touched on all the questions asked. The majority of responses were issuers who filled out the questionnaire saying "Agree" without further explanation or rationale. Based on a free float of 25%, 109 respondents (30%) thought it was acceptable, 17 respondents (5%) thought it should be lower and 9 respondents (2%) thought it should be higher. There were 225 respondents (63%) that did not touch on the free float question. 95 respondents (26%) agreed that the proposed threshold for the number of investors (in both New Board PRO and New Board PREMIUM) was acceptable, 24 respondents (7%) thought that the number of investors threshold should be lower, 7 respondents (2%) that thought the threshold for the number of investors should be higher while 234 respondents (65%) did not comment on this topic.

5.9.3 Conclusions

150. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will not establish New Board PRO.

5.10 Question 9

What are your views on whether companies listed on a Recognised US Exchange that apply to list on the New Board should be exempted from the requirement to demonstrate that they are subject to shareholder protection standards equivalent to those of Hong Kong? Should companies listed elsewhere be similarly exempted?

Please give reasons for your views.

5.10.1 Qualitative Analysis

Breakdown by Nature of Respondent

151. Respondents tended to focus on enabling secondary listings of US listed Mainland companies in their response. Market practitioners generally favoured granting an exemption from Hong Kong equivalent shareholder protection standards for companies already listed on a Recognised US Exchange. Views of individual respondents on this matter were varied, while issuers were less inclined to offer such an exemption.
152. A number of market practitioners and individual respondents considered that the exemption should be extended to companies listed in other jurisdictions, including all Recognised Exchanges under the 2013 JPS. Germany, Japan, Australia and the UK were specifically mentioned as being additional jurisdictions that should be considered.
153. Several respondents from law and private equity firms advocated granting such exemptions on a case-by-case basis, rather than to all companies listed on a Recognised US Exchange.

Reasons for Views

154. Respondents considered that the US has a robust regulatory regime that incorporated a high level of investor protection on which Hong Kong could rely. Some respondents did not consider that Hong Kong could lay claim to having higher standards of investor protections than other major reputable exchanges, and thus the current stipulation of equivalence is unnecessary.
155. It was pointed out that, in an open economy with freedom of capital movements, Hong Kong investors already can and do invest in companies listed on US and other international exchanges and were thereby accepting the regulatory standards of those jurisdictions. Therefore, so long as the basis of regulation was adequately disclosed, there should be no reason why companies listed elsewhere could not be listed and traded in Hong Kong.
156. Those supporting the inclusion of other jurisdictions considered that the other jurisdictions mentioned had no worse shareholder protection in Hong Kong. Some even considered that Hong Kong should simply move to a disclosure-only regime and place the responsibility of selecting suitable investments on investors themselves.
157. The views opposing the proposed exemption were captured in one submission, which described the measure as “effectively outsourcing regulation to the USA and by-passing HK rules”. This and other opposing views also pointed out that Hong Kong investors are unlikely to have the right to participate in US class actions.
158. Some respondents also expressed concern that, under the US disclosure-based regime, Foreign Private Issuers in the US were not required to hold AGMs or to allow shareholders to vote at them, which is a lower threshold of transparency than investors in Hong Kong-listed companies today have.
159. One response recommended setting a higher minimum market capitalisation threshold of, for example, US\$750 million for US-listed companies seeking a secondary listing in Hong Kong on the basis of this exemption.

5.10.2 Quantitative Analysis

160. The Exchange received mixed responses on whether companies listed on a Recognised US Exchange should be exempted from the need to meet Hong Kong equivalent shareholder protection standards. 130 respondents (36%) agreed that companies listed on a Recognised US Exchange should be exempted, while 111 respondents (31%) did not agree. There were 119 respondents (33%) that did not touch on this topic.
161. When considering whether companies listed on other exchanges outside the US should be exempted, 89 respondents (25%) agreed, 118 respondents (33%) disagreed and 153 respondents (42%) did not respond. Many of the responses which did not follow the questions provided in the questionnaire did not touch on this topic.

5.10.3 Conclusions

162. The Exchange, having reviewed the responses, concludes that the market supports the creation of a new secondary listing route which provides an exemption from Hong Kong equivalent shareholder protection standards to “new economy” companies listed on Recognised US Exchanges for at least two years and which have a good compliance track record. The Concept Paper pointed out that the basis of the exemption was reliance on the deterrent effect of US regulation, and not on the basis that Hong Kong investors would be able to participate in US class actions²¹. However, it is acknowledged that such an exemption should not provide a “blank cheque” and that certain fundamental shareholder protection requirements should be imposed on such issuers choosing to secondarily list in Hong Kong, including a requirement to hold an AGM at least every 15 months. As identified in the Concept Paper, the practical requirements for a secondary listing applicant (who is already listed elsewhere) to vary its constitutional documents can be arduous. Therefore the Exchange proposes to impose these fundamental shareholder protection measures as conditions for the issuer’s continued listing in Hong Kong instead of requiring an amendment to the issuer’s constitutional documents in order to facilitate secondary listings.²²
163. In respect of responses calling for additional jurisdictions to be considered for a similar exemption, the Exchange would like to clarify the basis on which a prospective jurisdiction might be considered. It is first of all important that any jurisdiction granted an exemption to Hong Kong equivalent shareholder protections have a robust regulatory system and high standard of regulation in place. It should also share a similar legal framework with that of Hong Kong. It should also be in a time zone significantly removed from Hong Kong’s, as a large overlap in time zone would, in part, make a secondary listing in Hong Kong redundant and potentially present adverse competitive issues. On this basis, the Exchange has given further consideration to other jurisdictions that should be considered and, at this time, believe that companies with a listing on the Main Market of the LSE and belonging to the UK FCA’s “Premium Listing” segment could be granted a similar exemption. The Exchange will review this from time to time to determine if further jurisdictions could be added at a later date.
164. The Exchange also concludes from the responses that the market supports not requiring strict compliance with Hong Kong “equivalent shareholder protection standards” for eligible Greater China Companies. Accordingly the Exchange proposes not to apply the “centre of gravity” test to Greater China Companies eligible for the new secondary listing route. To mitigate the risk of regulatory arbitrage, the Exchange proposes that the waiver from strict compliance with Hong

²¹ HKEX, Concept Paper on New Board (June 2017), paragraph 155.

²² The Exchange will consider further whether, in some circumstances, it may be necessary for a company to change its constitutional documents to ensure that the rights of its shareholders, as set out in the Key Shareholder Protection Standards, are adequately protected.

Kong “equivalent shareholder protection standards” will only be available to Non-Greater China Companies and Grandfathered Greater China Companies. Greater China Companies will also lose the benefit of the automatic waivers currently granted for secondary listings (except those waivers which are also available for dual primary listings) if the bulk of trading in their shares subsequently migrates to Hong Kong.

165. The Exchange agrees with the suggestion that a higher market capitalisation threshold be imposed on issuers seeking a secondary listing in Hong Kong on the basis proposed by Question 9 to limit eligible issuers to the more established innovative companies and propose that applicants must have a minimum market capitalisation of at least HK\$10 billion to be eligible for the new concessionary secondary listing route. Companies with a “centre of gravity” in the Greater China region and companies with a WVR structure will also be required to have at least HK\$1 billion of revenue in its most recent financial year in order to be eligible for the new secondary listing route if its market capitalisation is less than HK\$40 billion.
166. Further details of the Exchange’s proposals on secondary listings are set out in section 6.

5.11 Question 10

What are your views on whether we should apply a “lighter touch” suitability assessment to new applicants to New Board PRO? If you are supportive of a “lighter touch” approach, what relaxations versus the Main Board’s current suitability criteria would you recommend?

Please give reasons for your views.

5.11.1 Qualitative Analysis

Breakdown by Nature of Respondent

167. Issuers, brokers and individual respondents were supportive of a “lighter touch” approach to suitability assessment for New Board PRO issuers. Investors were significantly opposed and advocated higher standards.
168. It was notable that larger market practitioners were less likely to express a view on this matter, and so broker responses are skewed towards the views of smaller brokers and participants.
169. There were few serious attempts to advocate what relaxations versus the Main Board’s current suitability criteria should be considered.

Reasons for Views

170. There was limited articulation of the reasons for supporting a “lighter touch” suitability assessment for New Board PRO applicants as the reasons were covered in the Concept Paper.
171. As outlined in the discussion of Question 6, significant concerns were expressed about the proposed reduced financial track record requirements for New Board PRO. Several respondents pointed out an inconsistency between the move towards tightening the criteria for GEM admission and the lower standards proposed for New Board PRO.

172. In view of reduced financial hurdles and consequent higher risks, it was considered inappropriate to further lower suitability criteria for New Board PRO applicants.

5.11.2 Quantitative Analysis

173. Slightly over half the respondents agreed that the New Board PRO should utilise a “lighter touch” approach (193 respondents, 54%), while 48 respondents disagreed (13%) and 119 respondents (33%) did not provide a view. The respondents that agreed were skewed towards issuers.

5.11.3 Conclusions

174. In light of the feedback received, the Exchange concludes that the suitability criteria for applicants should be maintained in line with those of the Main Board.

5.12 Question 11

What are your views on whether New Board PRO should be restricted to professional investors only? What criteria should we use to define a professional investor for this purpose?

Please give reasons for your views.

5.12.1 Qualitative Analysis

Breakdown by Nature of Respondent

175. Market practitioners generally opposed a restriction to professional investors only, while individual responses were more varied. Institutional investors tended to voice the strongest opposition to restricting the investors able to invest in New Board PRO-listed companies.
176. The responses supporting a professionals-only restriction generally were satisfied with the definition of professional investor outlined, though several suggested a higher threshold for consideration as a professional investor.

Reasons for Views

177. Those supporting the restriction to professional investors only cited the higher risk of the companies listed on New Board PRO and considered that retail investors did not have the sophistication to assess the risks involved.
178. Opposing views felt that it was unfair to bar retail investors from high growth opportunities, and one respondent cited the fact that a professionals-only board in Hong Kong had been opposed in 2009. Concern was also expressed that, without retail participation, New Board PRO would suffer from low liquidity.

5.12.2 Quantitative Analysis

179. A large portion of the responses that considered that New Board PRO should be restricted to professional investors only were from issuers that just said “Agree”. There were 155 responses

(43%) that agreed that New Board PRO should be restricted, 104 respondents (29%) that disagreed, and 101 respondents (28%) that did not provide a view.

5.12.3 Conclusions

180. The Exchange acknowledges the concerns of respondents around restricting New Board PRO to professional investors only. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will not establish New Board PRO.

5.13 Question 12

Should special measures be imposed on Exchange Participants to ensure that investors in New Board PRO-listed securities meet the eligibility criteria for both the initial placing and secondary trading?

Please give reasons for your views.

5.13.1 Qualitative Analysis

Breakdown by Nature of Respondent

181. Few respondents provided feedback with any substantive detail or rationale. Many of the responses that did address this question overlapped with the respondents' answers to Question 11 on whether New Board PRO should be restricted to professional investors only.

Reasons for Views

182. Those opposing special measures generally considered that the current system whereby restrictions are built into the Trading Rules is sufficient, with no other measures necessary. Some broker respondents pointed out that they would incur additional costs if further measures were imposed.

5.13.2 Quantitative Analysis

183. Slightly over half the respondents (184 respondents, 51%), with a significant portion of them being issuers, considered that special measures should be imposed on Exchange Participants while 55 respondents (15%) did not think so. There were 121 respondents (34%) that did not touch on this question. Most of the responses that did not follow the questions provided in the questionnaire did not touch on this topic.

5.13.3 Conclusions

184. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will not establish New Board PRO.

5.14 Question 13

What are your views on the proposal for a Financial Adviser to be appointed by an applicant to list on New Board PRO, rather than applying the existing sponsor regime? If

you advocate more prescriptive due diligence requirements, what specific requirements would you recommend to be imposed?

Please give reasons for your views.

5.14.1 Qualitative Analysis

Breakdown by Nature of Respondent

185. Issuers, brokers and HKEX participants generally favoured the proposal to appoint a Financial Advisor for New Board PRO issuers, rather than to apply the existing sponsor regime. Other respondents provided mixed views.

Reasons for Views

186. Those supporting the proposal did so on the basis that New Board PRO was open only to professional investors, who were considered to have the wherewithal to carry out their own analysis and to bear the risks involved in investing in companies listed on New Board PRO.
187. Supporters of the proposal also believed that this would make the IPO process less cumbersome and thereby reduce the costs to the issuer.
188. There was limited discussion of the rationale for opposing the proposal, but those that did provide reasons generally considered that the existing sponsor regime worked well. A few respondents elaborated that those responsible for the disclosures in listing documents should bear full civil and criminal liability for any material misstatements.

5.14.2 Quantitative Analysis

189. There were 139 respondents (39%) that supported Financial Advisors be appointed by an applicant to list on New Board PRO and 70 respondents (19%) that disagreed. There were 151 respondents (42%) that did not touch upon this question. Many of the supportive respondents were from issuers while most of the responses that did not follow the questions provided in the questionnaire did not touch on this topic.

5.14.3 Conclusions

190. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will not establish New Board PRO.

5.15 Question 14

What are your views on the proposed role of the Listing Committee in respect of each segment of the New Board?

Please give reasons for your views.

5.15.1 Qualitative Analysis

Breakdown by Nature of Respondent

191. Most respondents to this question did not provide any detailed discussion of the issue; however, those from each category of respondent that did provide a justification for their view were consistent in calling for the Listing Committee to carry out vetting and approvals of all New Board IPO applications.

Reasons for Views

192. While a number of respondents saw some benefits of delegating responsibility for New Board PRO approvals to the Listing Department, most considered that the Listing Committee had superior expertise in judging IPO applications, with some pointing out that delegation to the Listing Department for GEM is now in fact being reversed under the GEM Reform Consultation proposals.

5.15.2 Quantitative Analysis

193. This question was one of the less addressed questions. There were 106 respondents (30%), mostly issuers, that “agree” to maintain the roles of the Listing Department and Listing Committee laid out in the concept paper, 37 respondents (10%) that disagreed and 217 respondents (60%) that did not touch on this topic. Nearly all the respondents that did not follow the questionnaire did not address this question.

5.15.3 Conclusions

194. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board. Therefore, the Listing Committee will continue to carry out approvals for applicants to the Main Board, including innovative companies applying for listing under the new chapters to the Main Board Listing Rules.

5.16 Question 15

Do you agree that applicants listing on New Board PRO should only have to produce a Listing Document that provides accurate information sufficient to enable professional investors to make an informed investment decision, rather than a Prospectus? If you would advocate a more prescriptive approach to disclosure, what specific disclosures would you recommend be required?

Please give reasons for your views.

5.16.1 Qualitative Analysis

Breakdown by Nature of Respondent

195. Similar to Question 14, most respondents to this question did not provide any detailed discussion of the issue and there was no clear distinction by category that did provide a justification of their views.

196. On balance, respondents were willing to accept a Listing Document for New Board PRO, rather than to require a Prospectus. Some market intermediaries suggested to extract certain portions of a Prospectus to form a Listing Document.

Reasons for Views

197. On balance, respondents considered that, for a professionals-only market, a lower standard than a full Prospectus was acceptable if it could reduce the overall cost and process burden on issuers, since professionals should be equipped to carry out their own assessment of a company.
198. Nevertheless, a significant number of respondents, including sponsors and other market practitioners, felt strongly that it was important to retain the Prospectus requirement, since this subjects the sponsor to the fullest extent of liability under the law and helps maintain the quality of the listing applicants.

5.16.2 Quantitative Analysis

199. There were 170 respondents (47%) that agreed it is sufficient to provide a Listing Document and 91 respondents (25%) that disagreed. There were 99 respondents (28%) that provided no view on the required documentation. The respondents that agreed were largely issuers and intermediaries, while respondents who did not follow the questionnaire did not touch on this topic.

5.16.3 Conclusions

200. In light of the conclusions set out in paragraphs 96 to 101 that the Exchange will not establish a New Board and will not establish New Board PRO, it is not strictly necessary to draw a conclusion from the feedback to this question. However, if a professionals-only market were to be adopted in Hong Kong in the future, it appears on balance that the market would be prepared to forego the Prospectus requirement and accept a Listing Document that provided accurate information sufficient to enable professional investors to make an informed investment decision.

5.17 Question 16

What are your views on the proposed continuous listing obligations for the New Board?
Do you believe that different standards should apply to the different segments?

Please give reasons for your views.

5.17.1 Qualitative Analysis

Breakdown by Nature of Respondent

201. There were very few respondents who tackled this question substantively, but almost none of those that did respond supported a reduced level of continuous listing obligations for the New Board when compared with the prevailing Main Board standards.

Reasons for Views

202. Respondents who addressed this question generally felt that companies should follow prescribed standards of continuous disclosure so as to enable investors to make informed investment decisions.
203. It was further pointed out by several respondents that different continuous listing obligations or disclosure standards for different boards or segments may be confusing to the market.

5.17.2 Quantitative Analysis

204. Almost half the respondents (168 responses, 47%) believed that the New Board should comply with continuous listing obligations of the Main Board while 61 respondents (17%) believed that they should not. There were 131 respondents (36%) that provided no view with regard to this topic.

5.17.3 Conclusions

205. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will not establish New Board PRO. Based on the feedback, the Exchange concludes that continuing listing obligations for innovative companies listed under the new chapters should be the same as those applicable to other companies on the Main Board.

5.18 Question 17

For companies that list on the New Board with a WVR structure, should the Exchange take a disclosure-based approach as described in paragraph 153 of this Concept Paper? Should this approach apply to both segments of the New Board?

Please give reasons for your views.

5.18.1 Qualitative Analysis

Breakdown by Nature of Respondent

206. Overall, the substantive responses favouring WVRs were conditional on there being additional safeguards. Issuers, brokers and HKEX participants were generally more likely to favour a disclosure-only approach. Almost no respondents advocated a different approach to New Board PRO versus New Board PREMIUM, but those few who did generally considered that New Board PRO could adopt a disclosure-only standard, whereas New Board PREMIUM should be subject to higher safeguards.

Reasons for Views

207. Market practitioners that favoured a disclosure-only regime cited competitive considerations for not wanting to impose mandatory obligations on issuers that might lead them to select an alternative listing venue over Hong Kong. They noted that the US regime did not mandate safeguards.

208. Respondents favouring adopting WVRs only with certain safeguards acknowledged that there are potential additional risks associated with WVR structures, and therefore it was appropriate to impose certain minimum protections to safeguard the interests of public shareholders.
209. Where respondents advocated a disclosure-only standard for New Board PRO and a safeguards approach for New Board PREMIUM, they generally did so because they saw professional investors as being better equipped to protect themselves and bear the risks involved. This view, however, was firmly rejected by investors with whom the Exchange engaged through the consultation period, with even large institutional investors feeling that they required protection against certain extreme risks.

5.18.2 Quantitative Analysis

210. 239 respondents (66%) responded on this topic.
211. Almost all of these (213 respondents, 59% of all respondents) were supportive of WVRs either through a disclosure-only approach or with safeguards.
- 88 respondents (24% of all respondents) preferred a disclosure-only approach; and
 - 125 respondents (35% of all respondents) preferred implementing safeguards.
212. 26 respondents (7%) indicated that they did not support allowing companies to list with WVRs at all.

5.18.3 Conclusions

213. In light of the responses, the Exchange concludes that the introduction of WVRs in Hong Kong should be accompanied by appropriate safeguards to protect investors against the additional risks that can accompany WVR structures.

5.19 Question 18

If, in addition, you believe that the Exchange should impose mandatory safeguards for companies that list on the New Board with a WVR structure, what safeguards should we apply? Should the same safeguards apply to both segments of the New Board?

Please give reasons for your views.

5.19.1 Qualitative Analysis

Breakdown by Nature of Respondent

214. A limited number of respondents offered feedback on the nature of the safeguards that they would like to see if companies with WVRs are allowed to list in Hong Kong. The most detailed feedback was provided by market practitioners, and commonly included the following:
- (a) A general anti-avoidance provision to prevent existing listed companies in Hong Kong adopting WVR structures;

- (b) all shares should have some voting rights, with the voting right differential between WVR shares and other shares capped;
 - (c) WVRs should be limited to founders and key employees only;
 - (d) the application of connected transaction rules to WVR holders;
 - (e) not to allow WVRs to exist indefinitely, and a restriction on the transfer of WVRs;
 - (f) not to allow an increase in the proportion of WVRs after listing; and
 - (g) a minimum proportion of INEDs on the board of an issuer with a WVR structure.
215. Several respondents from the legal community, including the Law Society, advocated that a class actions regime should be instituted in Hong Kong if WVRs are introduced. However, this was not generally supported by other respondents and has been dealt with in detail in the 2015 WVR Concept Paper Conclusions.²³

Reasons for Views

216. Respondents who offered suggestions regarding safeguards generally did not provide detailed reasons for their views, but some referred to the 2015 WVR Concept Paper Conclusions in their responses where the Exchange explained that these safeguards principally mitigated expropriation and entrenchment risks.

5.19.2 Quantitative Analysis

217. No quantitative analysis is necessary, as this question was meant to be discursive in nature.

5.19.3 Conclusions

218. Drawing on the feedback from respondents as well as a large body of discussion contained in the 2015 WVR Concept Paper Conclusions, the Exchange proposes to require the following safeguards in respect of WVR issuers, the details of which are further set out in section 6:
- (a) ring-fencing provisions;
 - (b) restrictions of WVR to eligible persons only;
 - (c) limits on WVR powers to share based structure with capped voting power, and for certain fundamental matters to be determined on a one share one vote basis;
 - (d) enhanced disclosure and prominent warning language;
 - (e) enhanced corporate governance measures; and
 - (f) constitutional backing for the WVR safeguards to allow private legal action by shareholders.

5.20 Question 19

Do you agree that the SEHK should allow companies with unconventional governance features (including those with a WVR structure) to list on PREMIUM or PRO under the “disclosure only” regime described in paragraph 153 of the Concept Paper, if they have

²³ 2015 WVR Concept Paper Conclusions paragraph 146 and 150.

a good compliance record as listed companies on NYSE and NASDAQ? Should companies listed elsewhere be similarly exempted?

Please give reasons for your views.

5.20.1 Qualitative Analysis

Breakdown by Nature of Respondent

219. There were very significant overlaps in the responses to this question with those to Question 9. Individual respondents, issuers, brokers and HKEX participants were generally supportive of allowing companies listed on a Recognised US Exchange and which have a good compliance track record to secondarily list in Hong Kong on a “disclosure only” basis. Responses from investor respondents and other market practitioner groups were more mixed.

Reasons for Views

220. Respondents supporting the proposal generally did so because they considered that the US is a developed market that has a high standard of regulation and rigorous investor protection standards. Some considered that other jurisdictions with similarly high levels of regulatory standards could be considered also, with Australia, Germany, Japan, Singapore and the UK all mentioned as other potential jurisdictions that could be considered; however, others believed that it was appropriate to grant such dispensation only to the US, since the US has the most experience in listing WVR companies.

221. Some respondents expressed concern over certain dispensations for Foreign Private Issuers in the US, which allowed such issuers to avoid certain corporate governance norms, including the holding of AGMs.

222. Several respondents opposed the measure, citing that a “good compliance track record” was subjective and hard to define.

5.20.2 Quantitative Analysis

223. Respondents were in general supportive of the Exchange allowing companies with unconventional governance features on a US exchange to list in Hong Kong under a “disclosure only” regime. There were 175 respondents (49%) that agreed, 54 respondents (15%) that disagreed and 131 respondents (36%) that did not respond on this topic. Regarding the question of whether companies on a non-US exchange should be included, respondents were less supportive with 125 respondents agreeing (35%), 78 respondents (21%) disagreeing and 157 respondents (44%) providing no opinion on this topic.

5.20.3 Conclusions

224. The Exchange concludes from the responses that companies already primary listed on a Qualifying Exchange with a good record of compliance will be able to secondary list in Hong Kong under the new secondary listing route with unconventional governance features (including a non-conforming WVR structure) under a “disclosure only” approach. In line with the requirements outlined in paragraphs 162 to 163, eligible issuers will need to be “new economy” with a good record of compliance for at least two years on a Qualifying Exchange and meets the proposed minimum market capitalisation requirement.

225. To mitigate the risk of regulatory arbitrage, the Exchange proposes that the facilitative measure for secondary listing with unconventional governance features under a “disclosure only” approach will only be available to Non-Greater China Companies and Grandfathered Greater China Companies. Grandfathered Greater China Companies will also need to comply with the Hong Kong WVR safeguards applicable to primary listings to the extent that the safeguards are not inconsistent with their existing governance structure and which do not require a change to their constitutional documents if the bulk of trading in the shares of such issuers subsequently migrates to Hong Kong.
226. Further details of the Exchange’s proposals on secondary listings are set out in section 6.

5.21 Question 20

What are your views on the suspension and delisting proposals put forward for the New Board?

Please give reasons for your views.

5.21.1 Qualitative Analysis

Breakdown by Nature of Respondent

227. There was no significant differentiation between different categories of respondent to this question. Those offering a substantive response were mixed in their opinion regarding accelerated delistings. Some investment managers advocated that the current Main Board and GEM delisting mechanism should be more in line with the proposed delisting mechanism for New Board PREMIUM.

Reasons for Views

228. Most views in favour of an accelerated delisting mechanism were predicated on a desire for “higher standards”, with some also considering this as being a deterrent to the creation of “shells” in the Hong Kong market.
229. Views opposed expressed concerns that investors may be left in a worse position if a company is delisted altogether, with a number believing that the 90 days proposed for New Board PRO was too short. A number also believed that a different regime to the Main Board or GEM would be confusing to the market.

5.21.2 Quantitative Analysis

230. Slightly over half the respondents (182 respondents, 51%) did not touch on this issue. There were 128 respondents (35%) that agreed and 50 respondents (14%) that did not agree with the suspension and delisting proposal put forth for the New Board.

5.21.3 Conclusions

231. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board and will better accommodate the listing of New Economy issuers on the Main Board through a new chapter in the Main Board Listing Rules.

232. The Exchange agrees with the views of some of the respondents that creating a different suspension and de-listing regime for New Economy issuers may create confusion in the market. Given the proposal to accommodate the listing of “new economy” issuers on the Main Board, this concern will become even more pronounced as this would result in there being two separate suspension and delisting regimes on the same board. Accordingly the Exchange concludes that it would not be appropriate to introduce a separate suspension and delisting regime for “new economy” issuers on the Main Board.
233. The Exchange notes the views from some of the respondents that an accelerated delisting mechanism may be a useful deterrent to the creation of “shells” and improve the quality of the market. The Exchange considers that this should be addressed in a review of the suspension and delisting regime of the Main Board as a whole. In this connection the Exchange published a consultation paper on “Delisting and Other Rule Amendments” in September 2017 with proposals to improve the effectiveness of the delisting framework under the Listing Rules generally, including a proposal to accelerate the existing delisting mechanism of the Main Board. The Exchange believes that support for an accelerated delisting mechanism would be more appropriately addressed as part of that consultation on delisting and does not propose to introduce a separate regime for “new economy” companies.

5.22 Question 21

Should New Board-listed companies have to meet quantitative performance criteria to maintain a listing? If so, what criteria should we apply? Do you agree that companies that fail to meet these criteria should be placed on a “watchlist” and delisted if they fail to meet the criteria within a set period of time?

Please give reasons for your views.

5.22.1 Qualitative Analysis

Breakdown by Nature of Respondent

234. There was a divergence of views here among individuals and market practitioners who responded. A majority of individuals favoured setting quantitative performance criteria, but offered few suggestions as to what criteria to apply and provided no substantive rationale behind the responses. Market practitioners varied in their views, but those providing a substantive response mostly opposed such quantitative criteria.

Reasons for Views

235. Those supporting quantitative criteria suggested measures including minimum share price, minimum profitability over a period, and minimum public float. However, these responses were not generally accompanied by strong reasoning behind the suggestions.
236. Those opposed to quantitative criteria generally pointed to the difficulty in selecting appropriate criteria, and the risk that such criteria could lead to manipulation.

5.22.2 Quantitative Analysis

237. Nearly half the respondents (172 respondents, 48%) believe that there should be quantitative measures in place to maintain a listing in Hong Kong while 53 respondents (15%) did not agree.

There were 135 respondents (37%) that did not touch on this topic as this was a rarely mentioned topic in responses that did not follow the original questionnaire.

5.22.3 Conclusions

238. Based on the responses, the Exchange does not believe that appropriate criteria for any quantitative measures could be identified at this time, but proposes to keep this matter under consideration for the future.

5.23 Question 22

Do you consider that an even “lighter touch” enforcement regime should apply to the New Board (e.g. an exchange-regulated platform)?

Please give reasons for your views.

5.23.1 Qualitative Analysis

Breakdown by Nature of Respondent

239. A majority of issuers supported an even “lighter touch” enforcement regime, but most other respondents opposed this.

Reasons for Views

240. There was little by way of reasoning offered for applying an “lighter touch” enforcement regime.
241. Views opposed expressed concerns that an even “lighter touch” enforcement regime would attract lower quality companies, with some pointing out that lower standards may in fact discourage higher quality issuers from choosing to list on the New Board.

5.23.2 Quantitative Analysis

242. There were 150 respondents (42%) that agreed that there should be an even “lighter touch” enforcement regime applied to the New Board while 98 respondents (27%) disagreed. There were 112 respondents (31%) that did not provide a response.

5.23.3 Conclusions

243. For the reasons set out in paragraphs 96 to 101 the Exchange will not establish a New Board.

6 PROPOSED WAY FORWARD

244. Since the Concept Paper's consultation period closed the Exchange has had considerable dialogue with the SFC. Drawing on the feedback received in response to the Concept Paper and subsequent regulatory discussions with the SFC, the Exchange has determined to proceed as set out in the following paragraphs.
245. In brief, the Exchange intends to accommodate the listing of issuers from the emerging and innovative sectors through two new chapters in the Main Board Listing Rules to allow (a) Biotech issuers that are pre-revenue; and (b) innovative and high growth issuers that have WVR structures, to list on the Main Board, subject to appropriate disclosure and safeguards. The Exchange also proposes to modify the existing Main Board Listing Rules in relation to overseas companies (and also make consequential changes to the 2013 JPS) to create a new secondary listing route to attract innovative issuers that are primary listed on a Qualifying Exchange.
246. The Exchange is in the process of finalising the details of the proposals and has commenced the drafting of the proposed amendments to the Main Board Listing Rules to put the proposals into effect. The Exchange intends to further refine the proposals through discussions with stakeholders to ensure that the Exchange has the benefit of their views. The Exchange will then conduct a formal consultation on the detailed proposals and proposed amendments to the Main Board Listing Rules. The Exchange expects to begin the discussions shortly after the publication of these consultation conclusions with a view to proceed with the formal consultation on the proposed Rule amendments in the first quarter of 2018.
247. The Exchange currently envisages the detailed proposals put out for final consultation will include the following features.
- "New economy"*
248. The intention of the proposals in the Concept Paper is to attract more high growth companies from innovative sectors, or so-called "new economy" companies. However, as acknowledged in the Concept Paper, it is hard to define such companies, since they compass a range of sectors and is not necessarily restricted to specific sectors. The definition is also likely to evolve over time. Therefore, the Exchange proposes to publish a guidance letter on the characteristics of an innovative company to provide guidance to the market in place of a fixed definition.
249. At present, the Exchange considers an innovative company for the purpose of the Main Board Listing Rules would normally be expected to possess more than one of the following characteristics:
- (a) its success is demonstrated to be attributable to the application of new (1) technologies; (2) innovations; and/or (3) business model to the company's core business, which also serves to differentiate the company from existing players;
 - (b) research and development is a significant contributor of expected value and constitutes a major activity and expense;
 - (c) its success is demonstrated to be attributable to unique features or intellectual property; and
 - (d) it has an outsized market capitalisation / intangible asset value relative to its tangible asset value.

250. The characteristics for an innovative company set out in the guidance letter will be used in the determination of an issuer's eligibility (a) to list with a WVR structure; and (b) for the new secondary listing route. In relation to pre-revenue companies, the Exchange proposes to initially limit eligible companies to Biotech companies, for the reasons set out below.

Pre-revenue Issuers

251. The Exchange proposes to facilitate the listing of "new economy" companies which are pre-revenue through a new chapter in the Main Board Listing Rules, supplemented with a guidance letter on the factors that the Exchange will take into account when determining an applicant's eligibility/suitability to list on a pre-revenue basis. As companies which are unable to satisfy the Financial Eligibility Tests potentially carry additional risks to investors, the Exchange proposes to limit the applicants permitted to list under this new chapter to Biotech companies only. These companies will need to have a minimum expected market capitalisation at the time of listing of not less than HK\$1.5 billion. The Exchange will explore this proposed minimum expected market capitalisation requirement with market participants to ensure that it is set at the appropriate level given the other characteristics and conditions that applicants will be required to meet.
252. The rationale for this is that the activities undertaken by Biotech companies tend to be strictly regulated (e.g. by the US Food and Drug Administration) under a regime that sets external milestones on development progress. This will provide investors with a frame of reference to judge the value of companies that do not have traditional indicators of performance (e.g. revenue and profit). Biotech companies also make up a majority of companies in the pre-revenue stage of development seeking a listing. The higher minimum expected market capitalisation requirement will likely limit applicants to those biotech companies which are more established and with more experienced management. The Exchange intends to further refine the detailed scope of Biotech companies through discussions with market participants experienced in this space before the formal consultation on the detailed proposals and proposed amendments to the Main Board Listing Rules.
253. The guidance letter on Biotech companies will provide that an applicant applying for listing on a pre-revenue basis must demonstrate that it is a Biotech company and would normally be expected to have the following features:
- (a) has been primarily engaged in research and development for the purposes of developing new or innovative products/processes/technologies;
 - (b) has unique features of innovation or intellectual property that could be reasonably expected to give rise to commercialisable patents, copyrights and/or trade secrets;
 - (c) has as its primary reason for listing the raising of finance for R&D to bring identified products/processes/technologies to commercialisation;
 - (d) has at least one product/process/technology which has proceeded beyond the concept stage (for example, having passed Phase I stage in relation to the clinical trial of a drug regulated by relevant drug and safety authorities such as the FDA (US), CFDA (China) or EMA (Europe) and has received all the necessary regulatory approvals to proceed to Phase II);
 - (e) has a portfolio of durable patents, registered patents and/or patent applications that demonstrates its rights to the new technologies or innovations that form the basis of its listing application; and
 - (f) has previously received investment from at least one sophisticated investor (including financial institutions).

254. An applicant must also meet the enhanced working capital requirements set out by the Exchange (125% of the issuer's current requirements over the next 12 months) and has been in operation in its current line of business (for example, research and development in Biotech) for at least two years prior to listing.
255. Biotech companies applying for a listing under this new chapter will also be required to provide enhanced risk disclosures, disclosures on the phases of development for its product(s) and the potential market of its product(s), disclosure of details of spending on R&D, patents granted and applied for as well as the R&D experience of management. This is to ensure that investors are fully informed of the business and R&D risks involved.
256. Given the pre-revenue nature of eligible Biotech companies and the requirement of having attracted investment from at least one sophisticated investor, the Exchange proposes that shares held by cornerstone investors at the time of listing will not count towards determining whether the company has met the minimum initial public float requirement for listing to facilitate a market-driven book-building process and help ensure post-listing liquidity. For the avoidance of doubt companies are not prohibited from having cornerstone investment in its offering as long as it could meet the initial public float requirement.
257. The Exchange will review the regime for listing pre-revenue companies in due course to determine if other types of "new economy" companies could also be permitted to list on a pre-revenue basis.

Issuers with WVR structures

258. The Exchange proposes to facilitate the listing of "new economy" companies with a WVR structure through a new chapter in the Main Board Listing Rules (a consequential modification will be made to Rule 8.11 of the Main Board Listing Rules to create an exception to the general restriction against WVR).
259. Applicants will be required to establish that they are both eligible and suitable for listing with a WVR structure. In this connection, the Exchange will publish in a guidance letter the factors that will be taken into account when assessing whether such an applicant is eligible and suitable for listing with a WVR structure. In this connection, the Exchange would normally consider a company suitable for listing in Hong Kong with WVR structures if they are able to demonstrate the following characteristics:
- (a) Nature of the company: the applicant must be an innovative company by reference to the characteristics set out in paragraph 249.
 - (b) Success of the company: the applicant demonstrates a track record of high business growth, as can be objectively measured by operational metrics such as business operations, users, customers, unit sales, revenue, profits and/or market value (as appropriate) and that its high growth trajectory is expected to continue.
 - (c) Contribution of WVR holders: Each WVR holder has been materially responsible for the growth of the business, by way of their skills, knowledge and/or strategic direction where the value of the company is largely attributable or attached to intangible human capital.
 - (d) Responsibility of WVR holders:
 - (i) Each WVR holder has an active executive role within the business, and contributes to a material extent to the ongoing growth of the business.
 - (ii) Each WVR holder is or would assume the role of director of the issuer at the time of listing.

- (e) External validation: the applicant has received meaningful (being more than just a token investment) third party funding from sophisticated investors (including financial institutions). Such investors will be required to retain an aggregate 50 percent of their investment at the time of listing for a period of at least six months post-IPO (subject to exceptions for de minimis investments by specific investors). This characteristic does not apply if the applicant is a spin-off from a parent company and in other exceptional circumstances.
260. For the purpose of assessing the eligibility and suitability of an applicant to list with a WVR structure, a spin-off applicant will be assessed on a stand-alone basis separate from the characteristics and track record of the parent (irrespective of whether the parent is listed on the Exchange or overseas).
261. The Exchange will evaluate each application on a principled basis so that only “genuine” candidates who fit the targeted profile are admitted. Demonstration of the above characteristics on a superficial basis would not automatically ensure an applicant’s suitability for listing with a WVR structure. The Exchange will also reserve the right to reject an applicant on suitability grounds if its WVR structure is an extreme case of non-conformance with governance norms (for example if the ordinary shares would carry no voting rights at all). Potential issuers will be able to consult with the Exchange on a pre-IPO basis as to the application of these factors.
262. The Exchange also proposes to initially limit applicants permitted to list with WVR structures to those companies that have an Expected Market Cap of not less than HK\$10 billion. This will limit applicants to the established and high profile companies that are already subject to some degree of public scrutiny. It will also help ensure that the economic interest in the company held by a WVR beneficiary will be a large enough, in dollar terms, to align their interests with those of other shareholders. If an applicant with a WVR structure has an Expected Market Cap of less than HK\$40 billion, the Exchange will also require the applicant to have at least HK\$1 billion of revenue in its most recent audited financial year.
263. Companies with WVR structures potentially carry additional risks to investors. Accordingly, in addition to the eligibility and suitability criteria, the Exchange also requires issuers with WVR structures to put in place appropriate safeguards, as set out below.
264. Ring-fencing:
- (a) Only new applicants will be able to list with a WVR structure. The Exchange will put in place a general anti-avoidance rule to protect shareholders from companies attempting to use artificial means to circumvent this restriction; and
 - (b) after listing, issuers with WVR structures will be prohibited from increasing the proportion of weighted voting rights in issue or issue any further WVR shares (subject to a limited right of pre-emption in the case of a pro rata offering to all shareholders (i.e. a rights issue or open offer).
265. Eligible persons only:
- (a) Beneficiaries of WVR will be restricted to those who are (and remain as) directors of the issuer. The WVR attached to a beneficiary’s shares will lapse permanently if the beneficiary (i) ceases to be a director; (ii) dies or is incapacitated; or (iii) if the shares are transferred to another person. This is to ensure that only persons who are responsible for the issuer’s performance and who owe fiduciary duties to the issuer are able to benefit from WVR; and
 - (b) the Exchange would require beneficiaries of WVR to meet a minimum equity threshold at

IPO to help ensure that their interests are commercially aligned with the shareholders of the issuer.

266. Limits on WVR powers:

- (a) The Exchange would require the WVR structure to be attached to a specific class (or classes) of shares, and that the rights attached to WVR shares and ordinary shares must be the same in all respects other than voting rights. The Exchange may also specify in its Main Board Listing Rules that where prescribed majorities are set for shareholders' resolutions (e.g. special or ordinary thresholds), in the event that a holder of WVR shares casts his/her votes in circumstances that the holder should not, such resolutions shall not, for the purposes of the Main Board Listing Rules and in calculating the requisite majorities, be counted. It will remain the issuer's obligation to ensure that only persons entitled to vote, do vote.
- (b) To mitigate expropriation and entrenchment risks, the Exchange would require the voting power attached to WVR shares to be capped to not more than ten times of the voting power of ordinary shares, and that non-WVR shareholders must hold at least 10% of the votes eligible to be cast at general meeting. The Exchange will also require that non-WVR shareholders holding at least 10% of the voting rights on a one-share one-vote basis must be able to convene a general meeting.
- (c) The Exchange will require the following key matters to be decided on a one-share one-vote basis: material changes to the issuer's constitutional documents, variation of rights attached to any class of shares, the appointment and removal of independent non-executive directors, the appointment and removal of auditors and the winding-up of the issuer.

267. Enhanced disclosure:

- (a) The Exchange will require issuers with WVR structures to be prominently identified through a unique stock code/marker and appropriate warnings to be included in the issuer's ongoing corporate communications; and
- (b) the Exchange will require appropriate warning language and a full description of the issuer's WVR structure, rationale and associated risks to be disclosed in its listing documents.

268. Enhanced corporate governance:

- (a) The Exchange would require a mandatory corporate governance committee comprised of INEDs to ensure that the issuer is operated and managed for the benefit of all shareholders and to help ensure the issuer's compliance with Hong Kong rules (including the safeguards); and
- (b) the Exchange would also require that the issuer engage a compliance adviser on a permanent basis and require directors and senior management to undergo appropriate training on WVR and its associated risks.

269. Constitutional backing:

- (a) The Exchange will require the prescribed safeguards to be incorporated in the issuer's constitutional documents.
- (b) This requirement is intended to allow private legal actions to be taken for breaches of the

safeguards.

270. The Exchange has taken into consideration the feedback from a number of respondents suggesting that WVR should not be allowed to exist indefinitely. Having considered the responses overall, the Exchange is of the view that a time-defined sunset clause would likely make the Hong Kong regime very uncompetitive versus overseas markets where no requirement for a sunset clause exists (particularly the US). However, the Exchange agrees that on balance it is not appropriate for WVR to exist indefinitely, and is accordingly proposing (i) a restriction on the WVR holder's ability to transfer the weighted voting rights attached to their shares; and (ii) a requirement that a beneficiary's WVRs to fall away if he/she ceases to be a director, dies or becomes incapacitated. The practical effect of these requirements is that WVR will not exist indefinitely for companies listed in Hong Kong and will only continue whilst the existing WVR holders continue to hold their WVR shares and continue to be actively involved in the business of the issuer.

271. Anti-avoidance:

The Exchange will include appropriate anti-avoidance language in the proposed Main Board Listing Rules to prevent new applicants as well as listed issuers seeking to circumvent the prescribed WVR safeguards.

272. Enforcement:

- (a) A breach of the Main Board Listing Rules by a company listed on the Exchange with a WVR structure will be enforced in the same way as a breach of Listing Rules by any other company listed on the Exchange. A failure to comply with the Listing Rules in a material manner is grounds for suspension or cancellation of listing under Rule 6.01. A breach of Listing Rules may also result in disciplinary proceedings against the issuer and/or its directors under Chapter 2A of the Main Board Listing Rules.
- (b) The relevant WVR safeguards will be built into the Main Board Listing Rules using compulsive language to make enforcement possible. The Exchange will also require, to the extent legally permissible, for some of the safeguards to be incorporated into the constitutional documents of the issuer to provide shareholders with a ground for civil action through the Courts if necessary.
- (c) The proposed WVR safeguards include a requirement that a WVR holder must be a director of the listed issuer at listing and thereafter in order to retain his or her WVR shares. In addition, the Main Board Listing Rules will also provide that a WVR holder would not be considered by the Exchange to be suitable for holding WVR shares in the following circumstances:
 - (i) The holder is found to have failed to comply with the requirement for certain corporate actions (e.g. a material change to the articles of association of the listed issuer) to be conducted on a one share one vote basis;
 - (ii) the holder is convicted of an offence involving a finding that the holder acted fraudulently or dishonestly; or
 - (iii) a disqualification order is made by the court against the holder.
- (d) In the event of a possible breach of the relevant WVR safeguards or the triggering of a circumstance in which WVR may be lost, the Exchange's proceedings will comply with the same due process requirements as those applicable to a proceeding for a possible breach by any other listed company, with the delivery of show cause letters requiring rectification of

the breach within a specific period failing which, for example, suspension may be directed as a protective measure. Ultimately a hearing before the Listing Committee as decision maker would normally be required for which the relevant established procedures would be followed. The Exchange will develop processes as part of the second consultation to conduct the proceedings in a fair and efficient manner.

- (e) Depending on the circumstances, the Listing Committee would be asked to make appropriate directions for remedial action or a direction for a WVR holder to give up his or her WVR shares, to be carried out within a specific timeframe. The Exchange may constrain access to the market by the Company or an individual director through a cold shoulder order; suspension or ultimately cancellation unless the direction is complied with. Further, if the Listing Committee had decided that a holder is no longer entitled to WVR shares, the Exchange would withhold its listing approval (in the case of an issuance of listed securities) or its approval for the issuance of a shareholders' circular (in the case of a material transaction requiring a circular) if the WVR holder purports to have contributed to the approval of a matter in contravention of the Exchange's decision on the holder's entitlement to WVR.

Facilitating secondary listings

273. The Exchange proposes to modify the existing Main Board Listing Rules in relation to overseas companies (and make consequential changes to the 2013 JPS) to create a new route to secondary listing for companies from emerging and innovative sectors that are primary listed on a Qualifying Exchange.
274. The new secondary listing route to be set out in the amended Main Board Listing Rules will only be available to companies with all of the following characteristics. The company must:
- (a) be an innovative company by reference to the characteristics set out in paragraph 249;
 - (b) be primary listed on a Qualifying Exchange;
 - (c) have a good record of compliance for at least two years on a Qualifying Exchange; and
 - (d) have an expected market capitalisation at the time of secondary listing in Hong Kong of at least HK\$10 billion. A secondary listing applicant (i) with a WVR structure; and/or (ii) with a "centre of gravity" in the Greater China region will also be required to meet the revenue test applicable to WVR applicants set out in paragraph 262 if it has an expected market capitalisation at the time of secondary listing in Hong Kong of less than HK\$40 billion.
275. Applicants with all of the above characteristics would be established innovative companies regulated under a robust regulatory regime with a legal framework similar to Hong Kong. The requirement for a good record of compliance for at least two years will also reduce the risk of regulatory arbitrage by potential applicants. On this basis the Exchange proposes the following facilitative measures for these companies.

Centre of gravity:

276. The 2013 JPS applies a list of factors to an applicant to determine whether its "centre of gravity" is in Greater China. The Exchange proposes that Greater China Companies with the characteristics listed in paragraph 274 above will not be subject to the "centre of gravity" test. This will permit companies in the emerging and innovative sectors with a centre of gravity in the Greater China region to secondary list in Hong Kong.

Automatic waivers:

277. The 2013 JPS currently sets out the Main Board Listing Rules that are automatically waived for companies with, or seeking, a secondary listing if they meet necessary criteria. The Exchange proposes to codify these waivers in the Main Board Listing Rules for companies that are eligible for the new secondary listing route.

Equivalence requirement:

278. Secondary listing applicants are currently required to be subject to shareholder protection standards that are at least equivalent to those of Hong Kong²⁴. These comprise: (i) the holding of annual general meetings at least every 15 months; (ii) a requirement that certain matters such as material changes to the issuer's constitutional documents, winding-up and a variation of class rights are subject to a "super-majority" vote of shareholders; (iii) that no alteration is made to the constitutional documents to increase an existing member's liability unless approved by such member; (iv) that the appointment, removal and the remuneration of auditors requires the approval of a majority of shareholders or other body independent of the board of directors; (v) that minority shareholders must be allowed to convene an extraordinary general meeting (and minimum level of members' support required to convene a meeting must not be higher than 10%); and (vi) that HKSCC must be entitled to appoint proxies to attend meetings.
279. As identified in the Concept Paper, the practical requirements for a secondary listing applicant (who is already listed elsewhere) to vary its constitutional documents to meet this equivalence requirement can be arduous. The Exchange therefore proposes not to require Non-Greater China Companies or Grandfathered Greater China Companies to amend their constitutional documents to meet the equivalence requirement. Instead, to safeguard the interests of minority shareholders, the Exchange will impose the Key Shareholder Protection Standards as Listing Rule requirements. The Exchange will consider further whether, in some circumstances, it may be necessary for a company to change its constitutional documents to ensure that the rights of its shareholders, as set out in the Key Shareholder Protection Standards, are adequately protected. The Exchange will discuss this proposal further with the SFC before finalising the detailed facilitative measures for the Rules consultation.

Foreign Private Issuers

280. A non-US issuer that is primary listed on a US Qualifying Exchange will be required to disclose that, as a Foreign Private Issuer, it is exempted from most of the corporate governance requirements that apply to US incorporated issuers and investors should exercise caution when investing in the shares of the issuer. It must clearly disclose this in the listing document that the issuer produces for the purpose of its secondary listing in Hong Kong and must summarise the provisions in the laws and regulations in its home jurisdiction and primary market that are different to those required by Hong Kong law regarding: (i) the rights of its holders of its securities and how they can exercise their rights; (ii) directors' powers and investor protection; and (iii) the circumstances under which its minority shareholders may be bought out or may be required to be bought out after a successful takeover or share repurchase.²⁵ A Foreign Private Issuer should also clearly disclose any unusual features in its governance structure that are specific to the issuer (for example a "poison pill" provision).

²⁴ Rule 19.30(1)(b). Applicants incorporated in Recognised Jurisdictions are required to incorporate the provisions of Appendix 3 and Appendix 13 of the Main Board Listing Rules into their constitutional documents to meet this equivalence requirement. Applicants incorporated in Acceptable Jurisdictions are required to explain how their domestic laws, rules and regulations and constitutional documents, in combination, meet the Key Shareholder Protection Standards.

²⁵ See 2013 JPS paragraph 63(b).

Secondary listing with a WVR structure

281. Applicants seeking a secondary listing under the new concessionary route with a WVR structure would be required to meet all of the eligibility and suitability criteria applicable to a primary listing set out in paragraphs 259 to 262 above.
282. Non-Greater China Companies and Grandfathered Greater Chinese Companies will be able to secondary list with their existing WVR structures and will not have to comply with the proposed ongoing WVR safeguards (see paragraphs 264 to 269) except for the WVR safeguards that are disclosure requirements. The Exchange reserves the right to reject an applicant on suitability grounds if its WVR structure is an extreme case of non-conformance with governance norms (for example if the ordinary shares carry no voting rights at all).

Non-Grandfathered Greater China Companies

283. To deter Greater China Companies from listing on a Qualifying Exchange and then secondary listing in Hong Kong to avoid Hong Kong's primary listing requirements, Greater China Companies that are primary listed on a Qualifying Exchange after the date of this paper will not be granted the concessions set out in paragraphs 278 to 282 above with regards to the equivalence requirement and WVR structures.
284. At the point of secondary listing, these Non-Grandfathered Greater China Companies must demonstrate that they are subject to shareholder protection standards equivalent to those of Hong Kong law and their WVR structure, if they have one, must conform to Hong Kong primary listing requirements. These companies must also comply with all ongoing WVR safeguards.

Figure 3 – Summary of Requirements Under New Concessionary Secondary Listing Regime

	Grandfathered Greater China Companies	Non-Grandfathered Greater China Companies	Non-Greater China Companies
Automatic waivers	Apply		
Shareholder Protection Standards	Required to comply with the Key Shareholder Protection Standards set out in the Main Board Listing Rules (see paragraph 279)	Required to change its constitutional documents (as necessary) to meet equivalent shareholder protection standards to those of Hong Kong	Required to comply with the Key Shareholder Protection Standards set out in the Main Board Listing Rules (see paragraph 279)
WVR structure (if applicable)	<u>No</u> need to meet WVR safeguards nor change WVR structure to meet primary listing requirements	Must meet WVR safeguards and WVR structure must conform with primary listing requirements	<u>No</u> need to meet WVR safeguards nor change WVR structure to meet primary listing requirements

Circumstances when the bulk of trading in a secondary listed company's securities moves to Hong Kong

285. The new concessionary route to secondary listing set out above will remove the “centre of gravity” test and allow Greater China Companies to secondary list in Hong Kong. It is likely that, in general, these companies will attract greater interest from Hong Kong investors than the secondary listings of Non-Greater China Companies. Consequently, there is a possibility that the majority of trading in the shares of these companies will, at some point, migrate from the company's exchange of primary listing to Hong Kong. The Exchange believes it would not be appropriate to place reliance upon the regulatory regime in operation in an overseas jurisdiction of primary listing for a company whose securities were mostly traded in Hong Kong.
286. Where the bulk of trading in the shares of an issuer migrates to Hong Kong on a permanent basis²⁶, the Exchange proposes that the codified automatic waivers granted to Greater China Companies (both grandfathered and non-grandfathered) under the new concessionary route (see paragraph 277) no longer apply. These companies would be treated as having a dual-primary listing in Hong Kong and would, on a case by case basis, be granted only waivers that are commonly granted to dual-primary listed issuers. Any existing transactions carried on by the issuer at the time the automatic waivers fall away will be exempted from having to comply with Hong Kong Listing Rules on a retrospective basis. Grandfathered Greater China Companies will also need to comply with the Hong Kong WVR safeguards applicable to primary listings to the extent that the safeguards are not inconsistent with their existing governance structure and which do not require a change to their constitutional documents. These companies would be given a 12 month grace period to comply with the applicable requirements.
287. Non-Greater China Companies would be able to continue to enjoy automatic waivers granted under the new concessionary secondary listing route, in the unlikely event that the bulk of trading in their shares moved permanently to Hong Kong. This is consistent with the Exchange's existing practice for Non-Greater China Companies.

Additional amendments to the Main Board Listing Rules in relation to “new economy” companies

288. The Exchange notes the views expressed by some respondents urging the Exchange to make the Main Board Listing Rules more appropriate to the characteristics of “new economy” companies, in particular calling for greater flexibility to the current approach in respect of delineation of business, reliance and competition. The Exchange will conduct a review of the existing rules and guidance in these respects and will publish guidance to facilitate the listing of “new economy” issuers within the existing regulatory framework.

Takeovers Code

289. Consistent with the listing policy of accommodating the listings of innovative issuers and for competition purposes, the SFC have indicated to the Exchange that their current thinking is that the Takeovers Code would not apply to secondary listings of Greater China Companies in so far as they would be regarded as “public companies in Hong Kong” for the purposes of the Takeovers Code; but that if the bulk of trading moves to Hong Kong and therefore a company is treated as having a dual primary listing in Hong Kong, the Takeovers Code would apply at that point. Further consideration will be given to this after the publication of these consultation conclusions. It is anticipated that any consultation on the Takeovers Code that may follow would be separate to the Exchange's planned Rules consultation.

²⁶ The Exchange proposes that in the event that 55% of the total trading volumes in the shares of the issuer take place on the Exchange in the most recent fiscal year, the Exchange will consider that the bulk of trading in the shares of the issuer has migrated to Hong Kong on a permanent basis.

7 APPENDIX I – LIST OF RESPONDENTS

7.1 Named Respondents

NAME	CATEGORY	REPRESENT
INSTITUTIONS		
ACCA Hong Kong ²⁷	Professional Body	24,000 members and 71,000 students
Alternative Investment Management Association	Professional Body	Over 1,800 corporate members (its fund manager members collectively manage US\$1.8 trillion AUM)
Altus Capital Limited	Market Practitioner	Not applicable
Asia Capital Markets Institute	Market Practitioner	Not applicable
Asia Securities Industry & Financial Markets Association	Professional Body	Over 80 member firms ²⁸
Asian Corporate Governance Association	Professional Body	Over 100 corporate members, two thirds of which are institutional investors with ~US\$26 trillion AUM
BDO Limited	Market Practitioner	Not applicable
Bitquant Research Laboratories (Asia) Limited	Market Practitioner	Not applicable
BlackRock	Market Practitioner	Not applicable
BOCI	Market Practitioner	Not applicable
BOCI Asia Limited ICBC International Holdings Limited	Market Practitioner	Not applicable
British Columbia Investment Management Corporation	Market Practitioner	Not applicable
Business and Professionals Alliance for Hong Kong	Professional Body	7 Legislative Council members ²⁹ , several District Council members, professionals and representatives from different fields
Central China International Capital Limited	Market Practitioner	Not applicable
China International Capital Corporation Hong Kong Securities Limited	Market Practitioner	Not applicable
China Renaissance Securities (HK) Ltd	Market Practitioner	Not applicable
China Tian Yuan Finance Group	Market Practitioner	Not applicable
Cleary Gottlieb Steen & Hamilton(Hong Kong)	Market Practitioner	Not applicable
CompliancePlus Consulting Limited	Market Practitioner	Not applicable
Computershare Hong Kong Investor	Market Practitioner	Not applicable

²⁷ Association of Chartered Certified Accountants

²⁸ Comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers

²⁹ Namely Andrew Leung Kwan-yuen, Jeffrey Lam Kin-fung, Lau Wong-fat, Abraham Shek Lai-him, Christopher Cheung Wah-fung, Lo Wai-kiok and Priscilla Leung Mei-fun

Services Limited		
Daiwa Capital Markets	Market Practitioner	Not applicable
Deacons	Market Practitioner	Not applicable
Dream Game	Issuer	Not applicable
Easy Repay Finance & Investment Limited	Market Practitioner	Not applicable
Ernst & Young	Market Practitioner	Not applicable
European Chamber of Commerce in Hong Kong's Financial Services Business Council	Professional Body	15 European Chambers based in Hong Kong and 1 in Macau
Federation of Hong Kong Industries	Professional Body	Over 2000 members
Fidelity IM	Market Practitioner	Not applicable
Frost & Sullivan	Market Practitioner	Not applicable
GCIS Limited	Market Practitioner	Not applicable
Group of Financial Institutions and Persons ³⁰	Market Practitioner	Not applicable
Group of Financial Institutions ³¹	Market Practitioner	Not applicable
Hermes Investment Management	Market Practitioner	Not applicable
HeungKong Financial Group	Market Practitioner	Not applicable
HK Financial Services Development Council	Professional Body	23 council members
Hogan Lovells	Market Practitioner	Not applicable
Hong Kong Business Angel Network Limited	Professional Body	Over 100 members
Hong Kong General Chamber of Commerce	Professional Body	23 industry and functional committees as well as special interest groups
Hong Kong Information Technology Joint Council	Professional Body	Over 2,000 members
Hong Kong Institute of Certified Public Accountants	Professional Body	Over 39,000 members and over 18,000 registered students
Hong Kong Institute of Chartered Secretaries	Professional Body	Over 5,800 members and 3,200 students
Hong Kong Institute of Financial Analysts and Professional Commentators Limited	Professional Body	Over 100 members who are financial analysts and over 6,000 student members
Hong Kong Investment Funds Association	Professional Body	Over 67 fund management companies managing about 1,350 SFC-authorized funds with about US\$1.1 trillion AUM. Also has 58 affiliate and associate members
Hong Kong Investor Relations Association	Professional Body	Over 650 members
Hong Kong Professionals and Senior Executives Association	Professional Body	Over 700 members
Hong Kong Securities Professionals Association	Professional Body	Over 2,500 members

³⁰ CLC International Limited, Convoy Capital Hong Kong Limited, Dakin Capital Limited, Euto Capital Partners Limited, Ever-Long Securities Company Limited, Frontpage Capital Limited, Gransing Securities Co., Limited, Huabang Corporate Finance Limited, Kingston Corporate Finance Limited, Messis Capital Limited, Red Sun Capital Limited, TC Capital International Limited, VC Capital Limited, WAG Worldsec Corporate Finance Limited, Hi Kit Chan, Ivan Chuk Cheung Chan, Sze Ming How, Steven Wing Shing Lo, Alexander Kwok Leung Tai, Joseph Jason Wan

³¹ Anglo Chinese Corporate Finance Limited, Quam Capital Limited, Somerley Capital Limited

Hony Capital	Market Practitioner	Not applicable
Huatai Financial Holdings (Hong Kong) Limited	Market Practitioner	Not applicable
Institute of Certified Management Accountants	Professional Body	Over 1,500 senior executive members
International Corporate Governance Network	Professional Body	Over 600 individuals based in 47 countries (its members represent institutional investors with excess of US\$26 trillion AUM)
Internet Professional Association Limited	Professional Body	Over 4,000 members
Jeffrey Mak Law Firm	Market Practitioner	Not applicable
Jingtian & Gongcheng	Market Practitioner	Not applicable
King & Woods	Market Practitioner	Not applicable
KPMG	Market Practitioner	Not applicable
Latham & Watkins	Market Practitioner	Not applicable
Legal & General	Market Practitioner	Not applicable
Linklaters	Market Practitioner	Not applicable
M&G Investments	Market Practitioner	Not applicable
Norges Bank Investment Management	Market Practitioner	Not applicable
Oxblock Technologies Limited	Issuer	Not applicable
PricewaterhouseCoopers	Market Practitioner	Not applicable
Proton Capital Limited	Market Practitioner	Not applicable
Qiming Venture Partners	Market Practitioner	Not applicable
RedTie Inc.	Issuer	Not applicable
Reorient Financial Markets Limited	Market Practitioner	Not applicable
Research Centre for Sustainable Hong Kong	Market Practitioner	Not applicable
Robeco	Market Practitioner	Not applicable
SHINEWING (HK) CPA LIMITED	Market Practitioner	Not applicable
Simon Murray & Co., Ltd	Market Practitioner	Not applicable
Slaughter and May	Market Practitioner	Not applicable
Smart City Consortium	Professional Body	Over 200 members, including various NGOs, corporates and professionals ³²
State Board of Administration of Florida	Market Practitioner	Not applicable
State Street Global Advisors	Market Practitioner	Not applicable
Sun Ray Capital Investment Corporation	Market Practitioner	Not applicable
Tencent Holdings Limited	Issuer	Not applicable
The British Chamber of Commerce in Hong Kong	Professional Body	Over 1,000 members ³³
The Chamber of Hong Kong Listed Companies	Professional Body	20 listed companies
The Hong Kong Institute of Directors	Professional Body	Over 2,400 directors ³⁴

³² Whom promote Hong Kong as the world's leading smart city

³³ Comprising major multinational companies, as well as substantial number of SMEs, and represents a broad spectrum of British, Hong Kong, international and Chinese companies

³⁴ Who promote corporate governance and director professionalism

The Hong Kong Society of Financial Analysts	Professional Body	Over 6,700 members
The Institute of Securities Dealers	Professional Body	Over 3,000 members
The Law Society of Hong Kong	Professional Body	Over 10,000 members
TLX Inc.	Issuer	Not applicable
Trinity Corporate Finance Limited	Market Practitioner	Not applicable
USS Investment Management	Market Practitioner	Not applicable
Wilson Sonsini Goodrich & Rosati	Market Practitioner	Not applicable
Y Society	Professional Body	Over 300 members
360	Issuer	Not applicable
上海张江高科技园区开发股份有限公司	Issuer	Not applicable
东方证券	Market Practitioner	Not applicable
中原股权交易中心股份有限公司	Market Practitioner	Not applicable
中国电信股份有限公司莆田分公司	Issuer	Not applicable
中证信用增进股份有限公司	Market Practitioner	Not applicable
北京广度漫想科技有限公司	Issuer	Not applicable
北京德星资本投资有限公司	Market Practitioner	Not applicable
北京泰德基金管理有限公司	Market Practitioner	Not applicable
北京聚爱账科技有限公司	Issuer	Not applicable
北京艾棣维欣生物技术有限公司	Issuer	Not applicable
北京轩瑞锋尚科技股份有限公司	Issuer	Not applicable
國信證券(香港)融資有限公司	Market Practitioner	Not applicable
新浪网财经科技事业部内容中心	Issuer	Not applicable
江苏世纪同仁律师事务所	Market Practitioner	Not applicable
深圳前海大数金融服务有限公司	Issuer	Not applicable
福建南绍有限公司	Issuer	Not applicable
福建省船舶工业集团	Issuer	Not applicable
金花谷(北京)企业管理顾问股份有限公司	Market Practitioner	Not applicable
香港男士協會有限公司	Professional Body	Over 100 members
香港證券業協會	Professional Body	Over 1,100 members
香港黃金五十	Issuer	Not applicable
深圳市律师协会	Professional Body	Over 10,000 professional lawyers
INDIVIDUALS		
Amy Zhai	None of the Above	Not applicable
Anthony Y.B. Yeung	None of the Above	Not applicable
Charles Mok	Legislative Council	Not applicable
Cheuk Hang Li	Retail Investor	Not applicable
David M. Webb	Independent Commentator	Not applicable
Eliza Liu Hongke	HKEX Participant Staff	Not applicable
Eric Wu	Listed Company Staff	Not applicable
Financial Alien	None of the Above	Not applicable
Gregg Li	Retail Investor	Not applicable
James Savage	Institutional Investor Staff	Not applicable
Jeffrey So Chi Hong	Retail Investor	Not applicable
Johnson Yiu-Nam Liu	Retail Investor	Not applicable
Junzheng Shen	None of the Above	Not applicable
Karlson Chan	Retail Investor	Not applicable
Keith Zhen	None of the Above	Not applicable

Lei Chi Feng	None of the Above	Not applicable
Manuel Schlabbers	Institutional Investor Staff	Not applicable
Matthew Harrison	None of the Above	Not applicable
Oliver Yun	Retail Investor	Not applicable
Riccardo Capelvenere	HKEX Participant Staff	Not applicable
Robin Fox	HKEX Participant Staff	Not applicable
Suen Chi Wai	Retail Investor	Not applicable
Sun Shangyun	HKEX Participant Staff	Not applicable
Tammy Shi	HKEX Participant Staff	Not applicable
Vincent Marshall Kwan Ho Lee	HKEX Participant Staff	Not applicable
William Ting	Retail Investor	Not applicable
Wong Chun Yee	None of the Above	Not applicable
Wong Kong Chi	None of the Above	Not applicable
Zhikai Chen	Institutional Investor Staff	Not applicable
任躍東	None of the Above	Not applicable
余春宁	Institutional Investor Staff	Not applicable
余慧	Listed Company Staff	Not applicable
呂志清, 潘筱群	Retail Investor	Not applicable
呂志華	Retail Investor	Not applicable
周思航	None of the Above	Not applicable
张森泉	Institutional Investor Staff	Not applicable
張秀賢	Retail Investor	Not applicable
李万金/刘金	Retail Investor	Not applicable
柴岩	None of the Above	Not applicable
简肇联	Retail Investor	Not applicable
范思霞	None of the Above	Not applicable
许建明	HKEX Participant Staff	Not applicable
譚山	HKEX Participant Staff	Not applicable
邹沐尧	Institutional Investor Staff	Not applicable

7.2 Anonymous Respondents

RESPONDENT CATEGORY	NUMBER
INSTITUTIONS	
Issuers	75
Market Practitioners	47
Professional Body	13
INDIVIDUALS	
HKEX Participant Staff	23
Institutional Investor Staff	11
Listed Company Staff	6
Retail Investor	24
None of the Above	7
TOTAL	206

8 APPENDIX II – SUMMARY RESULTS OF QUANTITATIVE ANALYSIS

The questions were designed to be targeted at specific topics but open-ended enough to allow respondents to freely state their opinions. The Exchange received varying types of responses from respondents with some choosing to answer question by question, some opting to write discursively laying out their thoughts in freeform, and some respondents chose to respond to only certain parts of certain questions or certain topics. For the purpose of a quantitative analysis, the Exchange reviewed the responses and broke down each into its quantitatively measurable components for the purposes of tracking the different responses that the Exchange received.

NO.	QUESTION	RESPONSE
Q1	What are your views on the need for Hong Kong to seek to attract a more diverse range of companies and, in particular, those from New Economy industries to list here? Do you agree that the New Board would have a positive impact on Hong Kong's ability to attract additional New Economy issuers to our market? <i>Quantitative question: Should Hong Kong attract more diverse companies?</i>	Agree 328 (91%)
		Disagree 14 (4%)
		No relevant view expressed 18 (5%)
Q2	What are your views on whether the targeted companies should be segregated onto a New Board, rather than being included on the Main Board or GEM? <i>Quantitative question: Should Hong Kong segregate New Economy companies?</i>	Agree 239 (66%)
		Disagree 53 (15%)
		No relevant view expressed 68 (19%)
Q3	If a New Board is adopted, what are your views on segmenting the New Board into different segments according to the characteristics described in this paper (e.g. restriction to certain types of investor, financial eligibility etc.)? Should the New Board be specifically restricted to particular industries? <i>Quantitative question: Should Hong Kong restrict the New Board to particular industries?</i>	Agree 114 (32%)
		Disagree 139 (38%)
		No relevant view expressed 107 (30%)
Q4	What are your views on the proposed roles of GEM and the Main Board in the context of the proposed overall listing framework?	No quantitative analysis
Q5	What are your views on the proposed criteria for moving from New Board PRO to the other boards? Should a public offer requirement be imposed for companies moving from New Board PRO to one of the other boards?	No quantitative analysis
Q6	What are your views on the proposed financial and track record requirements that would apply to issuers on New Board PRO and New Board PREMIUM? Do you agree that the proposed admission criteria are appropriate in light of the targeted investors for each segment?	No quantitative analysis

Q7	What are your views on whether the Exchange should reserve the right to refuse an application for listing on New Board PRO if it believes the applicant could meet the eligibility requirements of New Board PREMIUM, GEM or the Main Board? <i>Quantitative question: Can the Exchange refuse an application?</i>	Agree 170 (47%)
		Disagree 81 (23%)
		No relevant view expressed 109 (30%)
Q8 (a)	What are your views on the proposed requirements for minimum public float and minimum number of investors at listing? Should additional measures be introduced to ensure sufficient liquidity in the trading of shares listed on New Board PRO? If so, what measures would you suggest? <i>Quantitative question: Is 25% minimum float sufficient?</i>	Agree 109 (30%)
		Lower 17 (5%)
		Higher 9 (2%)
		No relevant view expressed 225 (63%)
Q8 (b)	What are your views on the proposed requirements for minimum public float and minimum number of investors at listing? Should additional measures be introduced to ensure sufficient liquidity in the trading of shares listed on New Board PRO? If so, what measures would you suggest? <i>Quantitative question: Is the minimum number of investors acceptable?</i>	Agree 95 (26%)
		Lower 24 (7%)
		Higher 7 (2%)
		No relevant view expressed 234 (65%)
Q9 (a)	What are your views on whether companies listed on a Recognised US Exchange that apply to list on the New Board should be exempted from the requirement to demonstrate that they are subject to shareholder protection standards equivalent to those of Hong Kong? Should companies listed elsewhere be similarly exempted? <i>Quantitative question: Should US Exchange listed companies be exempt?</i>	Agree 130 (36%)
		Disagree 111 (31%)
		No relevant view expressed 119 (33%)
Q9 (b)	What are your views on whether companies listed on a Recognised US Exchange that apply to list on the New Board should be exempted from the requirement to demonstrate that they are subject to shareholder protection standards equivalent to those of Hong Kong? Should companies listed elsewhere be similarly exempted? <i>Quantitative question: Should non-US Exchange listed companies be exempt?</i>	Agree 89 (25%)
		Disagree 118 (33%)
		No relevant view expressed 153 (42%)
Q10	What are your views on whether we should apply a “lighter touch” suitability assessment to new applicants to New Board PRO? If you are supportive of a “lighter touch” approach, what relaxations versus the Main Board’s current suitability criteria would you recommend? <i>Quantitative question: Do you support a “lighter touch” approach for New Board PRO?</i>	Agree 193 (54%)
		Disagree 48 (13%)
		No relevant view expressed 119 (33%)
Q11	What are your views on whether the New Board PRO should be restricted to professional investors only?	Agree 155 (43%)

	What criteria should we use to define a professional investor for this purpose? <i>Quantitative question: Should New Board PRO be restricted to professional investors only?</i>	Disagree 104 (29%) No relevant view expressed 101 (28%)
Q12	Should special measures be imposed on Exchange Participants to ensure that investors in New Board PRO-listed securities meet the eligibility criteria for both the initial placing and secondary listing? <i>Question provided Yes/No option</i>	Yes 184 (51%) No 55 (15%) No response 121 (34%)
Q13	What are your views on the proposal for a Financial Advisor to be appointed by an applicant to list on New Board PRO, rather than applying the existing sponsor regime? If you would advocate more prescriptive due diligence requirements, what specific requirements would you recommend be imposed? <i>Quantitative question: Should New Board PRO use Financial Advisors?</i>	Agree 139 (39%) Disagree 70 (19%) No relevant view expressed 151 (42%)
Q14	What are your views on the proposed role of the Listing Committee in respect of each segment of the New Board? <i>Quantitative question: Do you agree with the roles of the Listing Department and Listing Committee laid out in the proposal?</i>	Agree 106 (30%) Disagree 37 (10%) No relevant view expressed 217 (60%)
Q15	Do you agree that applicants listing on New Board PRO should only have to produce a Listing Document that provides accurate information sufficient to enable professional investors to make an informed investment decision, rather than a Prospectus? If you would advocate a more prescriptive approach to disclosure, what specific disclosures would you recommend be required? <i>Question provided Yes/No option</i>	Agree 170 (47%) Disagree 91 (25%) No relevant view expressed 99 (28%)
Q16	What are your views on the proposed continuous listing obligations for the New Board? Do you believe that different standards should apply to the different segments? <i>Quantitative question: Should the New Board have different continuous listing obligations?</i>	Agree 168 (47%) Disagree 61 (17%) No relevant view expressed 131 (36%)
Q17	For companies that list on the New Board with a WVR structure, should the Exchange take a disclosure-based approach as described in paragraph 153 of this Concept Paper? Should this approach apply to both segments of the New Board? <i>Quantitative question: What should the Exchange do with regard to WVR?</i>	No WVR 26 (7%) Disclosure-Only Approach 88 (24%) Implement Safeguards 125 (35%) No relevant view expressed 121 (34%)
Q18	If, in addition, you believe that the Exchange should impose mandatory safeguards for companies that list on the New Board with a WVR structure, what safeguards should we apply? Should the same	No quantitative analysis

	safeguards apply to both segments of the New Board?	
Q19 (a)	Do you agree that the SEHK should allow companies with unconventional governance features (including those with a WVR structure) to list on PREMIUM or PRO under the “disclosure only” regime described in paragraph 153 of the Concept Paper, if they have a good compliance record as listed companies on NYSE and NASDAQ? Should companies listed elsewhere be similarly exempted? <i>Quantitative question: Should SEHK allow “disclosure only” regime for US exchanges?</i>	Agree 175 (49%)
		Disagree 54 (15%)
		No relevant view expressed 131 (36%)
Q19 (b)	Do you agree that the SEHK should allow companies with unconventional governance features (including those with a WVR structure) to list on PREMIUM or PRO under the “disclosure only” regime described in paragraph 153 of the Concept Paper, if they have a good compliance record as listed companies on NYSE and NASDAQ? Should companies listed elsewhere be similarly exempted? <i>Quantitative question: Should SEHK allow “disclosure only” regime for other exchanges?</i>	Agree 125 (35%)
		Disagree 78 (21%)
		No relevant view expressed 157 (44%)
Q20	What are your views on the suspension and delisting proposals put forward for the New Board? <i>Quantitative question: Do you agree or not with the suspension and delisting proposal?</i>	Agree 128 (35%)
		Disagree 50 (14%)
		No relevant view expressed 182 (51%)
Q21	Should New Board-listed companies have to meet quantitative performance criteria to maintain a listing? If so, what criteria should we apply? Do you agree that companies that fail to meet these criteria should be placed on a “watchlist” and delisted if they fail to meet the criteria within a set period of time? <i>Quantitative question: Should there be quantitative measures in place to maintain a listing?</i>	Agree 172 (48%)
		Disagree 53 (15%)
		No relevant view expressed 135 (37%)
Q22	Do you consider that an even “lighter touch” enforcement regime should apply to the New Board (e.g. an exchange-regulated platform)? <i>Question provided Yes/No option</i>	Agree 150 (42%)
		Disagree 98 (27%)
		No relevant view expressed 112 (31%)

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