

Part B Consultation Questions

Please reply to the questions below that are raised in the Concept Paper downloadable from the HKEX website at:

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

Please indicate your preference by checking the appropriate boxes.

Where there is insufficient space provided for your comments, please attach additional pages.

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.

I cannot emphasize enough that Hong Kong Exchanges must get on the bandwagon of New Economy, which we have pitifully missed up until this point. Future wellbeing of Hong Kong's economy as well as the livelihood of finance practioners like myself is at stake. The proposed New Board hopefully can improve our fate in this regard, before it is too late.

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.

I am wary of poor and confusing market performance in places where there are too many listing venues, e.g. India. In my ideal world, only grade A companies should be allowed to list, because the general public investors need to be protected somewhat. However, our current listing criteria for grade A companies are not suitable to New Economy grade A companies. So we need to have an alternative board to the Main Board. New Board is more likely to take up that role than GEM, because it doesn't have the legacy issues and its listing requirements are set higher.

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.

I have followed China's NEEQ closely because it is highly related to my private equity business. I do not like what has become of it, even after its further segmentation. There are literally over ten thousand poorly traded stocks on NEEQ, without bringing much benefit to the listed companies and the financial intermediaries. New Board PRO could end up in that situation, distracting everyone from real value creation (assumably from PREMIUM). I think the most important yardstick to measure the success of this proposed reform will be on New Board PREMIUM. Applying the 80/20 rule, PREMIUM is expected to be the 80 (e.g. medium-big caps such as Ant Financial, Didi, DJI) while PRO the remainder 20 (composed of hundreds of micro caps) in terms of value creation for Hong Kong's stock market. If we succeed in PREMIUM, this reform will be regarded as a success even if we do not have PRO. On the other hand, PRO will bound to create a lot of noise and unproductive activities during its hype (NEEQ has a lot of such examples) that PREMIUM could be insufficiently served and mis-represented. From my perspective, the target companies of PRO are already well served by professional investors (VCs and private equity firms) in terms of fund raising. Allowing this early stage of companies (a significant percentage of them won't survive) to list does not seem to be a good idea in my assessment. In addition, I do not think there should be a specific industries restriction for PREMIUM. We do not have a crystal ball to foresee what industries will become New Economy, or high growth, in the future.

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

Please give reasons for your views.

I agree to the proposed roles of GEM and the Main Board as stated in the Concept Paper. Main Board should not be tainted; it should continue to be the highest quality place for established companies. GEM, as it already exists, can serve the established small/mid-cap companies. New Board PREMIUM will be the venue for high quality, high growth New Economy companies (I expect mid-to-large cap).

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.

As my opinion in Question 3 showed, I am not a fan of New Board PRO. I am in the VC/PE industry and the biggest headache our industry has today is far too much capital is available for start-ups, causing over-valuation and hyper-competition. New Board PRO will only exacerbate that problem because it means fund raising for not-yet-well-proven New Economy companies. My prediction is that PRO will either become inactive due to the higher cost of listing (vs. VC/PE transaction costs) or become a hotbed for non-value-adding capital market activities (such as NEEQ). Of course, this is only my personal view, and I hope I will be proven wrong.

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 for each segment?

Please give reasons for your views.

I think the admission criteria for New Board PREMIUM is reasonable; it needs to meet the same Main Board financial criteria to prove it is a top quality enterprise but its governance features = New Economy common types. However, my view on New Board PRO is different. Its admission criteria is almost lower than the criteria that private equity industry would apply upon investing in certain deals. I do not think HKEx needs to get into that sort of market for early stage New Economy companies.

7. 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?

Please give reasons for your views.

I think the Exchange should always reserve the right to refuse a listing application, including in the situation whereas a New Board PRO application is more suitable for the other boards. Such discretion is needed in case market players manipulated the mechanism for reasons we are yet to know.

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.

The fundamental weakness of New Board PRO is the stage and thus quality of listing candidates. A minimum market cap of HK\$200m is so low; almost all Series A private equity deals nowadays have valuations above that, and normally with only one-to-three professional investors as shareholders (vs. minimum 100 as required by New Board PRO for the sake of trading liquidity). I am quite concerned that these good-intention requirements will lead to New Board PRO either inactive (because so out of the market requirements) or chaotic (PRO listcos artificially add investors just to meet the listing requirements).

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.

I am in favor of exercising deal-by-deal discretion in admitting companies already listed in other exchanges including those in the US. No exchange is perfect. For better protection of the Hong Kong market, which we have painstakingly undertaken, we should exercise caution in wholesale exemption for other exchanges.

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.

I apologize for repeatedly voicing my concern about the creation of New Board PRO. A "lighter touch" suitability assessment reinforces my fears that New Board PRO will damage the overall reputation of HKEx as well as not contribute much to the business of Hong Kong financial industry.

11. What are your views on whether the 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.

VCs and PEs are the most suitable professional investors for companies at this stage. We sit on boards, guide them on business strategy, help them open new customer doors, plan their fund raisings. As a VC/PE practitioner, it is unlikely that I will participate in New Board PRO because (i) I won't be able to negotiate with the companies directly the type of terms I will need before I invest, e.g. board seat, negative control mechanism, performance ratchet; (ii) VC/PE does not appreciate open auction transactions which tend to drive up valuation. There are only a few hundred VC/PE firms in Hong Kong. If there is a minimum 100 professional investors requirement for New Board PRO, there will not be enough of us to be accounted for.

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?

Yes

No

Please give reasons for your views.

Differentiating eligibility between initial placing and secondary trading could mean automatic profit to the initial placing guys, which violates the level playing field principle.

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

Please give reasons for your views.

I am glad that this Questionnaire asks a number of good questions on New Board PRO (admission criteria, type of investors, and now Financial Adviser vs. current sponsor regime). Unlike the Main Board, GEM and New Board PREMIUM, New Board PRO really attempts to target a very different category of companies that HKEx has never dealt with. My fundamental question is, "Are this category of companies best dealt with in the private market (VC/PE) or in New Board PRO, or are these two venues complementary to each other?" Based on all I know, I do not think New Board PRO is needed at this point of time. Once New Board PRO is created, it will need to replicate the many features in the VC/PE private market in order to be sustainable, but doing so at tremendous regulatory and human resources. Not worthwhile in my mind.

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.

With no disrespect to the Listing Department, it is not equipped to vet and approve New Board PRO applications alone. Given the current admission criteria of New Board PRO, easily over two hundred deals that came across my desk annually could be admitted. Yet in fact, my firm and my VC/PE peers only invested in about 1-5% of these deals because we rejected them based on our years of experience in direct investments. Even so, a portion of those that survived our scrutiny did not survive at the end due to many reasons. If the Listing Department were to vet this type of applicants, a possible outcome is that we might quickly have hundreds if not thousands of listed companies on New Board PRO. I do not see the Listing Department can function as a good gate keeper of New Board PRO because it does not have the trend-spotting experience and the defacto deal-rejection right of VC/PE (Listing Department will need to carefully document why it rejects certain applicant, and need lengthy Q&As if such applicant inquires further).

15. Do you agree that applicants to listing on New Board PRO should only have to produce a Listing Document that provided 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?

Yes

No

Please give reasons for your views.

A New Board PRO applicant might simply does not have enough information to fill a regular Prospectus, thus a Listing Document will be more feasible for the applicant. However, with investors protection in mind, this level of disclosure is too limited. When VC/PE invests in this stage of company, even when the due diligence report would not be as thick as Prospectus, there is usually a high degree of unwritten knowledge about the investee's market trend, its business model, its entrepreneurs' integrity and capability. That intrinsically becomes part of the investor protection, which will be missing in a Listing Document of New Board PRO company.

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.

We impose similar obligations in our VC/PE deals, thus I believe these standards should also be applied to New Board companies (PRO and PREMIUM). What we need to be weary of is that a number of New Board PRO companies will fail to comply due to many reasons, which often happened to VC/PE invested companies as well. The major difference is that VC/PE has more means to deal with such situations efficiently and effectively (board directors' rights to dismiss management team members, reduce their stock options, refuse to sign legal documents, etc.). If HKEx were to enforce these obligation standards whenever listcos failed in them, HKEx would need to greatly expand its legal and investors-handling teams.

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.

Yes, I think a disclosure-based approach will be fine. Such approach should apply to both New Board PRO and PREMIUM.

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.

WVR structure exists for its distinct reasons. Putting more constraints on it (as mandatory safeguards will do) will not be fitting in a lot of situations, as WVR status of each company bounds to be evolving in time, some significant, some not.

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

Please give reasons for your views.

I agree. Once the market is used to disclosure only for New Board PREMIUM, investors will make their educated decisions the way they are making for Alibaba trading on NYSE. But I do not think a company listed on NYSE or other exchanges (their disclosure rules will change in time) be automatically exempted from our own disclosure rules (which will change on our own accord).

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

Please give reasons for your views.

I think the proposals are fine, in order to maintain the quality of Hong Kong's market and to protect investors. However, my worry is that a lot of New Board PRO companies will often touch the conditions leading to suspension and delisting because they are simply not at that level of compliance yet (focused more on business survival than listing status). Then we will see frequent suspensions and delistings on New Board Pro. This is a disruptive picture I am not ready to see for Hong Kong's market.

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.

New Board-listed companies should not have to meet listing-maintenance criteria different from the Main Board-listed ones. But my view on New Board PRO is well documented above.

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

- Yes
 No

Please give reasons for your views.

There is no shortage of private and public markets for less-than-top-quality companies. For Hong Kong to maintain its desirable listing place status, we need to attract the top-quality companies (New Board PREMIUM). I hope we can focus on that. Thank you for this New Board initiative, which could be Hong Kong's last chance to save us from missing the prizy part of the New Economy boat.

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