James Savage
[redacted]

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Dear Sir,

New Board Concept Paper

Thank you for inviting me to attend the lunchtime briefing on the New Board at the Exchange Exhibition Hall Boardroom at lunchtime on 13 July 2017. Following your request at that meeting, I write to set out my views on the New Board following my review of your paper on the subject.

I have lived in Hong Kong and made it my home since 1994. My career here has been based on building young technology businesses. Originally working in those businesses and since 2000 as a venture capital (VC) investor in technology businesses across the Asian region. In 2000, I was a founding member of HSBC's regional VC fund management business. We spun the business out from HSBC in 2010. I have remained a VC investor since 2000. Given, my experience in the field of VC in Asia and as long standing member of the community here, I am currently the Chair of the Venture Committee of the HKVCA. I write in a personal capacity and not on behalf of the HKVCA, which I understand will be making their own submission.

Firstly, I would like to express my strong support for the New Board. I believe that it is important for Hong Kong, its whole financial services industry but particularly its VC and new economy industry communities to have this New Board to provide liquidity and growth capital to the growing new economy industry. I understand and support the reasons for the Main Board to maintain is existing elite standards and quality but I believe there is an opportunity for a New Board with different entry and governance standards that are more suited to new economy industries.

Throughout my VC career it has been a constant challenge to list portfolio companies on suitable exchanges. A career worth of market study and practical experience has taught me that successfully listing a new economy company and producing ongoing cost effective benefits from that listing for the company relies on its scale, future growth potential, high standards of ongoing corporate governance and commitment to first class investor relations activities. It is my experience that this only comes with considerable scale. Practical experience has taught me that it is difficult to maintain the value from an IPO unless the company achieves and maintains a market capitalisation in excess of USD400m. Below this level, the scale the listing does not attract suitable analyst coverage, liquidity falls and the cost advantages of being listed on an exchange (liquidity and cost effective capital raises) is lost. However, after this sad loss of the benefits of a listing, an undersized company still has the considerable expenses of maintaining the listing, often making the company worse off than before the listing.

I have looked at a considerable number of secondary boards around the world to try to find a balance of regulation that could justify a listing at a smaller capitalisation. I have not found any. The second boards that allow listing of small companies with lax regulation are pretty universally illiquid. Over the medium term they also tend to attract less well governed businesses and their reputations are adversely affected. After the board has reached this state, no VC with really successful new economy company will consider it through fear of the boards reputation rubbing off on their prized investment.

A new economy company that finds itself listed too early often falls into a trap if it wishes to raise further capital. As its liquidity dries up due to its small scale, its market value falls and it is unable to raise further capital on the public markets. Such companies then commonly approach VC investors for capital. As the amount they wish to raise is still well within the resources of VC funds. A VC investor may see value in the company and consider privatising it and recapitalising it. It is the specialist knowledge of VC investors, often combined with the value they know they can add to the business through private ownership that leads VC investors to consider privatising such a company. However, they will demand to pay less than the market capitalisation on the public markets. As after privatisation there will be a liquidity discount on the stock. This often leads to massive dilution to the founder and more probably the public shareholders in the company. This is a very sorry outcome for all involved but could be avoided by not listing the company until it reaches the scale I have described above.

In summary, I strongly support the opening of a New Board for new economy companies. It should not have any requirements for submitting prior financial history to obtain a listing. However, this new board should be strictly limited to companies with a market capitalisation over USD400m, have tight corporate governance standards on both listing and an ongoing basis.

Regards,

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James Savage

cc: [redacted]