

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.

Terms used in my response below shall have the same meanings as defined in the Concept Paper.

I wish to set out my position clearly at the outset below so as to avoid any ambiguity about my response to each of the questions in this questionnaire:

1. Pre-profit companies from New Economy industries are too risky and their success rate and quality are in doubt. I am of the view that these companies are not suitable for local capital market.

2. Companies with non-standard governance features are not suitable for investors' appetite of local capital market. Hong Kong needs to maintain a fair and level playing field for all participants, be they investors or issuers themselves. Allowing companies with WVR structures to float in Hong Kong would do more harm than good.

3. The creation of New Board will merely cause confusions, complications and duplications to the market. Investors and the market at large will not be better off at all.

Based on my three basic principles above ("Basic Principles"), I now proceed to answer each of the questions below:

Yes, I agree that there is a need for Hong Kong to seek to attract a more diverse range of companies. However, I don't think establishment of the New Board is the right direction for achieving this objective!

We have already had two separate boards, namely GEM and Main Board and their respective GEM Board Listing Rules and Main Board Listing Rules. Creation of the New Board and its two separate segments, namely New Board PRO and New Board PREMIUM and their respective related listing rules (possibly called New Board PRO Listing Rules and New Board PREMIUM Listing Rules) would merely create confusions, complications and duplications to the local stock market.

There have already been GEM Listing Rules and Main Board Listing Rules which are substantially in the same form and language. Creation of New Board PRO Listing Rules and New Board PREMIUM Listing Rules would cause tremendous confusions which inevitably make retail investors difficult to understand and follow.

GEM was launched in 1999. Having implemented for nearly 18 years, GEM was totally unsuccessful - failure to serve its purpose to attract emerging and growth companies. If GEM were taken to be an event for evaluating the SEHK's performance during the last 18 years' track record period, I am afraid it is more likely than not that SEHK will create another mess (if not "shxx") for the New Board that needs to be cleaned up in the near future - just like what we have to do with GEM today. I have no confidence at all that the New Board will be able to achieve what SEHK prescribes in the Concept Paper!

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 strongly object to the proposal that the targeted companies should be segregated onto a New Board instead of incorporating them into the Main Board or GEM. Currently, there are companies which, by reference to their form/structure or their business nature were categorised under different chapters of the Main Board Listing Rules. For example, mineral companies are being dealt with under Chapter 18 of the Main Board Listing Rules. Similarly, investment companies whose shares are listed on the Main Board are being more specifically governed under Chapter 21 of the Main Board Listing Rules. Further, collective investment schemes which are very different form of investment vehicle e.g. real assets investment trusts, commonly known as REITs are more particularly monitored under Chapter 20 of the Main Board Listing Rules. These mineral companies, Chapter 21 investment companies and REITs, have their shares or units (in the case of REITs) trading on the Main Board.

Based on the above observations, I see no reasons why targeted companies (whether they are pre-profit or with non-standard governance features) cannot be included in the Main Board or the GEM. Having said that it does not necessarily mean that I support the proposal for welcoming any pre-profit listing applicants or those who have non-standard governance features (i.e. WVR structures) to local capital market.

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.

New Board should NOT be adopted! The idea of segmenting the New Board into different segments according to different characteristics is rubbish. As set out in my response in Q1 above, adoption of New Board would merely cause confusions, complications and duplications to investors, shareholders and the market at large. It was said in paragraph 118 of the Concept Paper that the Main Board should be perceived as our "premium" board and not include New Economy companies. But this is confusing. What do you mean by "premium"? There are many loss making issuers, scam stocks and poorly run issuers whose shares are still trading on the Main Board. Are these companies damaging the reputation of the Main Board and its preception of being "premium"? Maintaining the status of being "premium" requires not only high thresholds for new entrants but it also needs close monitoring and screening of the existing issuers.

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.

"Confusing" or "亂" in Chinese language! That's the only word I can think of for answering this question. Are we sure we need this framework in the near future: Main Board, GEM, New Board PRO, New Board PREMIUM, Private Market? That's too complicated!

There must have been confusions, complications and duplications in the context of the proposed overall listing framework if the proposal of New Board is adopted.

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.

New Board should NOT be adopted. There is no need to consider the criteria for moving from New Board PRO to any other boards!

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.

Based on the proposed admission requirements set out in paragraph 135 of the Concept Paper, I don't support the proposal to welcome any listing applicants from New Economy (whether they are pre-profit or those with non-standard governance features).

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.

Paragraph 136 of the Concept Paper said that the SEHK proposes to reserve its right to refuse a New Economy company's listing application to New Board PRO should the SEHK consider that the applicant could have met the eligibility requirements for New Board PREMIUM, GEM or the Main Board and/or the applicant is unable to prove that it comes from New Economy industries. However, the form and characteristics of New Economy industries are changing quickly. Have you ever imagined in June 2007 (i.e. when iPhone was invented) of how we are using smart phone today? Any attempt to define characteristics of New Economy would be too subjective and open to disputes. The SEHK's power to determine suitability criteria based on characteristics of New Economy would be too arbitrary.

In addition, the Concept Paper does not elaborate further as to how and who would be responsible for making this decision. I am worrying that the New Board may create competition internally within the Listing Department. With the desire to fulfill the budgets or quotas for performance evaluations, there may exist tensions, competitions and even conflicts among Main Board vetting team, GEM Board vetting team, New Board PRO vetting team, New Board PREMIUM vetting team within the Listing Department. The SEHK needs to elaborate further about the relationship and interaction among various vetting teams.

For New Board PREMIUM, I believe that under no circumstances should the SEHK allow listing applicants with non-standard governance features (i.e. WVR structures).

Rule 8.11 of the Main Board Listing Rules has been in place for many years and there has been no exception for the SEHK to allow a listing applicant to list its shares using WVR structures. In order to provide a level playing field to all existing listed companies and the future listing applicants, WVR structures should not be permitted. In addition, shareholders' protection may be hampered if WVR structures are permitted. Hong Kong has been doing very well in attracting good quality companies to apply for listing in Hong Kong. There is no need for Hong Kong to open up its gate to welcome companies with WVR structures at the expense of lowering shareholders' protection.

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.

Please see Basic Principle 1 in my answer to Q1.

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.

No, we must not sub-contract our regulatory function to the corresponding regulator in US. Hong Kong has very different culture, investor appetite, shareholder protection standards, legislation and other regulatory regime. No one can guarantee that shareholder protection standards which are currently in place in US would be workable here in Hong Kong.

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.

Please see Basic Principle 1 in my answer to Q1.

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.

Pre-profit companies are not welcome in Hong Kong even though these companies are only targeting the professional investors (as defined in Part 1 of Schedule 1 of the SFO). Please also see Basic Principle 1 in my answer to Q1.

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.

Pre-profit companies are not welcome in Hong Kong even though these companies are only targeting the professional investors (as defined in Part 1 of Schedule 1 of the SFO). Please also see Basic Principle 1 in my answer to Q1.

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.

Pre-profit companies are not welcome in Hong Kong even though these companies are only targeting the professional investors (as defined in Part 1 of Schedule 1 of the SFO). Please also see Basic Principle 1 in my answer to Q1.

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.

Please see Basic Principles 1 and 2 in my answer to Q1.

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.

Pre-profit companies are not welcome in Hong Kong even though these companies are only targetting the professional investors (as defined in Part 1 of Schedule 1 of the SFO). Please also see Basic Principle 1 in my answer to Q1.

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.

Please see Basic Principle 3 in my answer to Q1.

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.

Please see Basic Principles 2 and 3 in my answer to Q1.

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.

Please see all three Basic Principles in my answer to Q1.

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.

No, we must not sub-contract our regulatory function to the corresponding regulator in US. Please also see the three Basic Principles in my answer to Q1.

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

Please give reasons for your views.

Please see all three Basic Principles in my answer to Q1.

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.

Please see all three Basic Principles in my answer to Q1.

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.

Please see all three Basic Principles in my answer to Q1.

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