

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.

Hong Kong has been lagged behind the exchanges in other developed countries in attracting listing of New Economy companies as evidenced by the fact that many of these companies, even though based in the PRC, have chosen to list in the U.S. instead of in Hong Kong. It is important for Hong Kong to get a share of the listings of these companies so as to stay competitive with other financial markets. The introduction of New Board may serve this purpose as the lacking in profit for start-up companies and the unconventional governance structure adopted by New Economy companies have stopped them from listing in Hong Kong. The relaxation of such restriction should solve the problem.

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.

We agree that the targeted companies should be segregated onto a New Board. The main reason is that those targeted companies have a risk level and shareholder protection which are very different from those currently listed on Main Board or GEM. Separating them out could help alerting investors over these matters. Investors can choose to invest in these companies according to their risk appetite.

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.

We agree with the segmentation of the New Board (apart from restricting New Board PRO to professional investors only as discussed in Q11). In addition, the Exchange should give very clear guideline on the industry or business that is acceptable for admission to the New Board. There are also cases where the company have both traditional and New Economy businesses. The Exchange should give guideline on what are the minimum proportion of revenue/profit contributed by the New Economy business that would qualify for admission to the New Board. The Exchange may introduce pre-approval mechanism as required. The Exchange may also consider relaxing the restriction on VIE structure (LD43-3) for the New Board, which is adopted by many New Economy companies.

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.

We have no comment on the Main Board as it retains its current role, while for GEM, we doubt if investors will still have interests in such market and whether such market is necessary given that it only includes those companies that are of low profitability and are not in fast growing segment which will list on the New Board instead.

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.

We agree that the companies need to satisfy the relevant admission criteria for moving to other boards. This could close the loophole that companies may exploit on the lower admission criteria for New Board PRO and transfer to other boards at a later stage without satisfying the relevant requirement, just like the transfer from GEM to Main Board at the moment. A public offer is required as it could expand the shareholder base and reduce market volatility and risk of market manipulation.

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.

We agree that the requirements for New Board PREMIUM should follow that of the Main Board (except for the revenue requirement under revenue/market capitalisation test and revenue/cash flow/market capitalisation test which can be relaxed) to avoid creating another layer of listing framework. But for New Board PRO, although financial requirement may not be necessary, it should have demonstrated a track record of growth and development in its business (in terms of revenue/profit).

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.

We agree that the Exchange should reserve such right because this can ensure only pre-profit companies with high growth potential are listed on the New Board PRO, so as to maintain the different characteristics of various listing platform. In addition, it can close the loophole that companies choose to list on New Board PRO given that it does not require the issuance of a prospectus and it is opened to professional investors only under the current proposal.

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.

We agree that the minimum public float and minimum number of investors required for New Board PRO should be similar to GEM as both are targeting smaller scale companies, but it should be opened to the public investors to avoid shareholder concentration and high price volatility and reduce the risk of market manipulation.

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.

One of the major reasons that have directed many New Economy companies to list in the U.S. is that it could accept companies with non-standard governance features, which is also the key feature that differentiate the New Board from the Main Board. As such, we have no comment that the New Board should provide the above exemption to U.S. listed companies so as to attract them to the Hong Kong market. However, such exemption should not only be limited to those listed in the U.S., the Exchange should do a detail analysis on the various stock exchanges in the world to formulate a list of acceptable exchanges and provide the exemption on a consistent basis.

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.

We agree that a lighter touch suitability assessment should be applied given that New Board PRO aim at start-up companies which may not fit the assessment under the current regime. In addition, it is proposed to open to professional investors only which are more sophisticated in assessing the listing applicant before investing in it.

The Exchange should consider to relax the management continuity requirement under Rule 8.05. Given that the listing applicants are still at the start-up stage, its management may change in response to business changes and therefore it will be unduly burdensome for them to meet the management continuity requirement for the past three years.

Apart from this, we noted that the proposed "lighter touch" approach and the restriction to professional investor only is similar to the bonds issuance under Chapter 37 of the Rules. However, we would like to clarify whether such restriction is limited to those shares which is traded on the New Board or apply to those shares even if they are trading in OTC market, if it is the later case then it appears to contradict with the Companies Ordinance which requires further clarification.

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.

We do not agree with restricting New Board PRO to professional investors only. Restricting the shareholder base will result in concentration in shareholdings, which will increase market volatility and the risk of market manipulation, just like what we have observed in the current GEM board. Restricting to professional investors will also limit the public investors' chance in investing in these high growth potential companies, which violate the freedom of market. We also do not see similar restriction in other advanced markets.

In addition, as long as adequate disclosure and warning statement have been included in the prospectus, the investors should fully aware that these companies are pre-profit and are of higher risk and they can choose to invest in these companies according to their risk appetite.

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.

The Exchange should give clear guidelines/checklist to the Exchange Participants as to the eligibility criteria for both initial placing and secondary trading investors for the New Board PRO, so that they could make the relevant arrangement.

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.

Given the higher risk profile of the targeted listing applicants on the New Board PRO, the existing sponsor regime should apply to ensure the quality of due diligence performed, which in turn ensuring the quality of the market. This also in line the proposed rule change that a transfer application need to involve a sponsor instead of a financial/legal adviser currently.

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.

We are of the view that applications for listing on the New Board PRO should also be approved by the Listing Committee given that it is higher risk in nature and it can ensure a consistent approval approach is adopted across all the boards.

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.

It is important to set a higher or at least the same level of disclosure requirement for the New Board PRO when compared to the existing boards, given the higher risk profile of the targeted listing applicants on the New Board PRO. Therefore, the issuance of prospectus should be mandated for New Board PRO so as to in line with the disclosure requirements of other boards, and to provide the investors with adequate information to make a properly informed investment.

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.

The continuous listing obligations for New Board PREMIUM should follow that of Main Board, whereas the continuous listing obligations for New Board PRO should follow that of GEM given that the targeted companies are of similar scale.

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.

We agree that a disclosure-based approach should be applied to both segments of the New Board to make sure that the investors are fully aware of the non-standard governance structure and the related risk when they are making the investment decision.

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.

No additional safeguards is required given that adequate disclosure has been made as stated in Q17.

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.

One of the major reasons that have directed many New Economy companies to list in the U.S. is that it could accept companies with non-standard governance features, which is also the key feature that differentiate the New Board from the Main Board. As such, we have no comment that the New Board adopt a disclosure regime for U.S. listed companies with good compliance record. However, such regime should not only be applied to those listed in the U.S., the Exchange should do a detail analysis on the various stock exchanges in the world to formulate a list of acceptable exchanges and apply the regime on a consistent basis.

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

Please give reasons for your views.

We are of the view that the suspension procedures currently applied to the Main Board should be applied to the New Board for consistency and a consistent delisting time limit should be applied to both segments of the New Board, i.e. a listing should be cancelled after being suspended for 6 months.

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.

We recommend to set certain quantitative performance criteria to maintain a listing, e.g. revenue/profit growth rate, so as to demonstrate that the listing applicant has sustainable growth after listing. We also agree that companies that fail to meet the criteria should be delisted after certain period of time so as to maintain the market quality.

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.

Given that the New Board PRO is already having a lighter touch admission requirement, further relaxation of enforcement may result in quality issue of the listed companies. In addition, as the New Board PREMIUM is also opened to the public shareholders and it is only differ from Main Board in terms of governance structure requirement, a consistent enforcement regime should apply so as to ensure that the investors are adequately protected and to avoid companies choosing to list on New Board PREMIUM instead of Main Board because of the more relax enforcement regime.

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