

## 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.

We agree there is a need for Hong Kong to seek a more diverse range of companies. The so-called New Economy companies are especially welcome.

The removals of certain obstacles such as the prohibition of weighted voting structures will help attract such companies to list on the HKSE.

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 are open-minded. The purpose of this consultation is to think of ways to attract New Economy listing applicants. Whether we have to segregate them in a New Board or whether we can keep them on the Main Board but mark them out with a special stock name can be further discussed. Will the index companies be able to exclude the relevant listed companies from certain of their indices so that some buy-side firms will not be forced to buy into companies with WVR structures if they do not want to? In general, we have no objection to the inclusion of companies with WVR structures in the stock indices.

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.

The Exchange may explore further whether a New Board is the best way forward. We encourage the Exchange and the other stakeholders to discuss the special needs for capital market financing of different companies. However, we should be cautious in creating a New Board or a new segment before we have considerable comfort that it would work in the sense that sufficient capital raising and daily liquidity can be achieved without significant risk of market manipulation and while at the same time investor protection can be ensured. It is fair to restrict a specific group of investors to the New Board Pro provided that such group should be wide enough to ensure sufficient liquidity for the market.

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.

Both GEM and Main Board should continue to provide the core listing platforms for the companies which meet the stringent listing requirements under the listing rules. It is proposed that the initial listing requirements for GEM be increased (including an increased cash flow test). The minimum profit and financial test requirements for Main Board should also be increased accordingly.

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 listed companies on New Board PRO should meet all the admission criteria and listing requirements of the relevant board if they wish to transfer to list on such board. We consider that a public offer requirement should be imposed for companies moving from New Board PRO to one of the 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.

We agree to the the proposed financial and track record requirements that would apply to issuers on New Board PRO and New Board PREMIUM.

We agree to the proposed admission criteria for targeted investors, but please also refer to our reply to Q11.

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 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. This could prevent those applicants from bypassing the more stringent regulatory requirements for listing on New Board PREMIUM, GEM or the Main Board. Also, this could ensure only pre-profit New Economy companies with high growth can apply to list on the New Board PRO.

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 support the Exchange's view on the proposed requirements for minimum public float and minimum number of investors at listing.

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.

We consider that 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. We have the following suggestions to encourage the migration of the companies listed on a Recognised US Exchange to the New Board:

- a) The Exchange should adopt the "disclosure-based" approach for the migration application.
- b) The Exchange should implement fast-track migration mechanism for the companies to transfer from a Recognised US Exchange to the New Board.
- c) The companies listed on a Recognised US Exchange should issue a minimum number of new shares or do a secondary sell-down of a minimum number of existing shares in Hong Kong.
- d) The stock moving cost for both issuers and investors in Hong Kong should be minimized.
- e) The share register procedures for stock movement should be streamlined.
- f) Prospectus disclosure can be done by way of incorporation by reference to the listing documents or public announcement on the Recognised US Exchange. However, the prospectus should be bilingual which is in line with the current practice for the listing applications in Hong Kong.
- g) Given that Stock Connect positions Hong Kong as the primary venue for Mainland investors to gain exposure to non-Maniland equities, the companies migrated from the Recognised US Exchange to the New Board should be eligible for the Stock Connect programme.

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.

To protect the interests of the investors in New Board Pro, we should still impose stringent approach on the suitability assessment of the listing applicants to New Board PRO. Please see our reply to Question 13.

We note that the Exchange proposes the lock-up on controlling shareholders upon listing will be extended from one year to two years for GEM, and where appropriate, the Main Board. We do not support this extension and also do not agree this extension will apply to the New Board. We suggest keeping the same 6 month lock-up to restrict controlling shareholders from disposal of shares and subsequent 18 months lock-up to restrict controlling shareholders from ceasing to be controlling shareholders.

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 consider that the risk of investing in the targeted companies under the New Board PRO would be relatively higher than that in the New Board PREMIUM, GEM or Main Board. As such, the New Board PRO should be restricted to:- (1) Institutional Professional Investors (as defined in paragraph 15.2 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “Code”) and Corporate Professional Investors (as defined in paragraph 15.2 of the Code) who meet the requirements of 15.3A of the Code; (2) the relevant issuer’s employee share scheme(s); and (3) the relevant issuer’s substantial shareholders (as defined under the Securities and Futures Ordinance). If not, SFC should clarify licensed corporations’ and registered institutions’ suitability obligations for professional investors who intend to invest in the targeted companies under New Board PRO.

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.

Please see our reply to Question 11. The investor eligibility criteria needs to be enforced and guidance from the SFC on checking eligibility criteria and satisfying suitability test is welcome.

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.

We consider the sponsor regime standard in the due diligence exercise for the listing application for New Board PRO should be adopted in order to maintain a high quality standard for HK IPO market. Thus, sponsor is required to be appointed for listings on New Board Pro and should be appropriately remunerated for the due diligence work required to be performed.

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 support the Exchange's view on the proposed role of the Listing Committee in respect of each segment of the New Board.

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.

The Exchange should also produce content requirements for the Listing Documents. The Listing Documents should be bilingual.

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 support the views on the proposed continuous listing obligations for the New Board. We believe that most of the standards applicable to Main Board-listed companies should apply to the different segments.

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 are supportive of the "disclosure-based" approach which requires the companies to prominently disclose that they have a WVR structure and the risks associated with such structure. This approach should apply to both segments of the New Board.

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.

As long as the "disclosure-based" approach which is in line with the market standard of a Recognised US Exchange is adopted, we believe that there is no need for the Exchange to impose additional mandatory safeguards. Any safeguard or limitation on WVR will be arbitrary and serve to deter the target companies from listing in Hong Kong.

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.

We agree to the proposal if the companies have a good compliance record as listed companies on NYSE and NASDAQ. As regards companies listed on other boards, it all depends on the validity and soundness of the regulatory system of such boards which govern and monitor the companies with unconventional governance features. We agree that the Exchange could reserve the right not to approve the listing of a company with unconventional governance features, on suitability grounds, if their departure from Hong Kong governance norms was extreme.

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

Please give reasons for your views.

We agree to the suspension and delisting proposals for the New Board, which could remove poorly performing companies.



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 agree.

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.

We should continue to maintain a robust regulatory standard to all boards including the New Board.

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