

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.

Supportive. It will put HK in a more competitive position with other established and recognized stock exchanges.

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.

Supportive. It will provide more flexibility in structuring a listing venue catering specifically for the new-economy players.

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 longer-term sustainability of New Board PRO may be uncertain and rather redundant. The concept and positioning of New Board PRO bears substantial resemblance to GEM as it was originally intended except with the WVR feature, and the criteria of "high-growth potential" (which was once an intended feature of GEM) and "new-economy companies" are subjective and is likely to attract controversies, inconsistencies and confusion in its practical application.

The proposed minimum market capitalization of HK\$200 million indicates that small-cap start-ups are also among the targeted companies. However, professional investors likely to take part in providing seed or private equity capital to start-ups are more geared towards venture capital type of investors and funds, whose investment strategies are more of a longer-term hold in return for substantial exit gain, which goes contra to a liquid trading market. Moreover, it may not be realistic to expect a large number of venture capital investors willing to cramp into a small-cap start-up, which may render the minimum investor requirement of 100 not practicable.

Assuming that the New Board is intended to attract highly anticipated pre-profit companies and/or larger cap companies with more contemporary shareholding structure (such as WVR) to list in HK, it may be preferable to have a single New Board (that is, only a New Board PREMIUM), but with a lower benchmark on the market capitalisation/revenue/cash flow test and the market capitalisation/revenue test, to facilitate pre-profit companies (in addition to those that can meet the standard profit test).

On the other hand, if it is intended that HK should also provide a more structured venue for pre-profit / pre-revenue start-ups to tap on market funding, it may be better served through a transparent exchange/settlement system which are accessible only by professional investors. Effectively this would resemble a public registration system whereby providing liquidity is not a prime concern but rather providing a transparent, efficient platform to facilitate matching of small-cap start-ups with venture capital funds.

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.

Agree that MB should be positioned as a listing venue cater for more sizeable / larger cap companies, with GEM as a stand-alone board for smaller companies providing a listing and fund raising venue for companies less sizeable (but nonetheless with business scale sufficient to warrant a listing status).

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.

See response #3 above on view of New Board PRO.

Regardless, given the proposal to remove the streamline process for GEM listed companies to list on MB, companies listed on New Board PRO should be subject to the same treatment, that they should be treated as a new listing applicant if they are to apply for a listing on any other boards and not be entitled to any streamline / migration process. Otherwise it may again result in unwanted arbitrage activities and be perceived as unfair to GEM listed companies.

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.

Generally agree to align the financial and track record requirements of New Board PREMIUM with MB, but relax the market capitalisation/revenue/cash flow and the market capitalisation/revenue benchmark to a lower level to allow more pre-profit companies with demonstrated business potential or market anticipation to be eligible to list in HK.

For New Board PRO see response #3 above.

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.

No. If all four boards are to be structured as stand-alone boards, then the "no streamline / migration mechanism" should be universally applied across the four boards (ie., "migration" from one board to another would be treated as a new listing same as a first-time listing applicant). In this respect, the listing applicant should be given the autonomy to elect the board that it considers most fitted to them.

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.

See response #3 above.

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.

Fair and equitable treatment should be afforded across all recognized jurisdictions and foreign exchanges. Therefore such exemption, if available, should not single out any particular foreign stock exchange (be it US or Australia or UK) as to entitlement, but should be equally applicable to all recognized stock 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.

See response #3 above.

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.

Agree that New Board PRO should be restricted for professional investors only. Agree also that "professional investor" be aligned with the SFC's existing definition.

See also response #3 above.

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.

See response #3 above.

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.

See response #3 above.

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.

Agree that applications for New Board PREMIUM should continue to be approved by Listing Committee.

For New Board PRO see response #3 above.

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.

See response #3 above.

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.

Generally agree that New Board PREMIUM should mirror those of MB.

For New Board PRO see response #3 above.

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.

Agree a disclosure approach is preferable.

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.

Imposition of additional mandatory safeguards seems to be reversing course and defeat the original purpose of setting up the New Board, as it may again alienate HK with more flexible markets such as the US and Singapore.

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.

A post-listing "good compliance record" may only mean non-compliance not being discovered and/or voluntarily reported on. Moreover, different jurisdictions may adopt different regulatory approach and may apply varying degree of compliance standards. It may require vetting on the post-listing regulatory and monitoring regime and adopted standard of compliance of individual jurisdictions before granting any one jurisdiction with such "disclosure only" exemption.

See also response #9 above.

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

Please give reasons for your views.

The 3-month / 6-month delisting appears to be too drastic particularly compared to the extended delisting process of MB and GEM.

The "watch-list" system has potential merit, but it would be preferable that more thorough investigation be conducted to produce a "watch-list" system which link-up with delisting and applies across all boards (that is, MB, GEM and New Board).

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.

See response #20 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.

Agree for New Board PRO (see also response #3 above).

For New Board PREMIUM it should be subject to the same level of regulatory scrutiny as that of MB.

- End -