August 18, 2017

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

BY MAIL AND BY E-MAIL

Re: New Board Concept Paper

Dear Sirs,

The Chamber of Hong Kong Listed Companies is pleased to have the opportunity to respond to the Concept Paper concerning the New Board. Our response below addresses the key issues about whether Hong Kong should accommodate the listing of companies with non-standard governance structures ("NSGS"), and how. We choose not to answer some of the questions raised in the Concept Paper at this stage, especially those to do with quantitative measurements for eligibility. We believe that at present it is more important to deal with the fundamental issues. After the market has reached a consensus about the direction of development, those quantitative questions can be dealt with relatively easily.

Our views concerning the key issues surrounding the New Board are as follows:

Whether we should accept NSGS companies, for example, companies the shares of which have Weighted Voting Rights (the "WVR")?

Yes, we believe we should if Hong Kong is to maintain its competitiveness as an international financial and capital formation centre. The reality is that many companies listed in the US, especially the New Economy companies and those in the technology industry, are adopting NSGS. Such companies usually are founded by entrepreneurs with modest financial means and would have gone through a few rounds of equity funding in their earlier stages of development, thereby diluting the founders' shareholding in their respective companies. In order for the founders to secure continuing control and ensure management stability of their company after it has gone public, it is common for this kind of companies to opt for a non-standard governance structure. Typically, the success of such companies is inspired by and dependent upon the founders and their business prowess, technical expertise and creativity.

New Economy including technology companies are generally believed to be the major growth engine of the future economy. If our Stock Exchange's listing rules do not accommodate these companies, Hong Kong will miss out on the opportunity to attract them here and lose out on turnover and liquidity overall. Hong Kong's stock market will be marginalized and lose its competitiveness as a global financial center. Using Alibaba Group as an example, its stock's daily turnover on NYSE on Aug 9, 2017 was roughly HK$18.70 billion, compared to the Hong Kong market total turnover of HK$96.89 billion on the same day, representing 19.3%. This illustrates how a single mega New Economy company could contribute to the Hong Kong market if it were listed here. Without their participation, it is likely that the importance of Hong Kong's stock market would diminish in the long run. Nowadays, many international fund managers covering the Greater China market use the MSCI China Index instead of any of the Hang Seng indices as a benchmark to measure market performance because the MSCI China Index includes the ADRs issued by major Chinese New Economy companies and is perceived to be a more representative index. In fact, recently, the MSCI China Index has registered a much better performance than the Hang Seng indices. The 1-year performance of MSCI China Index as of July 31, 2017 was up 36.14%, compared to an increase of 23.47% of Hang Seng Index and 18.6% of Hang Seng China Enterprises Index over the same period.

Whether we should allow NSGS companies to list on the Main Board or create a New Board for them?

Instead of changing the Main Board listing rules to cater for NSGS companies, it is better that they are segregated to a newly created Board, as proposed in the Concept Paper. This will preserve in large part the existing rules of the Main Board and reserve the Main Board for companies which have standard governance structures, which presumably offer better investor protection. By confining NSGS companies to a separate Board, there will be a clear distinction of the investment characteristics and risk profiles of such companies listed on the New Board from those listed on the Main Board, thus minimizing confusion to investors and mitigating concerns that have been raised previously.

When processing the IPO applications of NSGS companies on the New Board, special attention should be given to ascertain their NSGS structure is due to a genuine need, such as by studying their past fund raising history and the role of the company's founders, but not a manipulation immediately before IPO by the founders to gain control of their companies in a low-cost way.

Should the New Board be divided into New Board PRO or New Board PREMIUM?

While we support the concept of having a New Board for NSGS companies, we do not support setting up the proposed New Board PRO. The intent of the New Board PRO is for early stage companies that do not meet the financial or other listing criteria for GEM or the Main Board. The size of such companies is small and their business quality and sustainability not proven. Allowing these infant companies with high risk profile to list would only increase investment risks and regulatory challenges. Even though the New

Board PRO is designated for professional investors, definitions of which include any individual, either alone or with any of his associates on a joint account, having a portfolio of not less than $8 million, this by no means excludes all individual retail investors who may not have the necessary skills to evaluate these companies with high risk profile and whose loss-bearing capacity is poor. The risks of the New Board PRO to the market and individual investors cannot be underestimated.

On the other hand, if the target investors are those who specialize in investing in early-stage companies, such as angel and venture capital investors, they generally have other means of access to such companies outside the stock market. The value of the New Board PRO to them may not be high. The venture capital market is very well developed in the Greater China region and good early stage companies should have no difficulty in raising equity capital to finance their growth.

Typically, angel and venture capital investors provide their investee companies with strategic help in business building and introducing good corporate governance practices. It is therefore more suitable for the early stage companies to work with angel or venture capital investors to refine their business model and to strengthen their operation and governance before becoming publicly owned.

Rather than admitting small companies with a high potential failure rate into our market, our New Board should target larger and established NSGS companies, which is what the proposed New Board PREMIUM is aimed to capture. Such companies would most likely come from the New Economy or technology sector, although companies from other sectors should not be excluded. The listing of established and reputable NSGS companies on our stock exchange is likely to attract both substantial investor interest and more companies of a similar nature to come, thereby developing a critical mass of New Economy and technology listed companies in our market and establishing Hong Kong's reputation as an efficient capital formation centre for this fast growing sector.

As for the conditions of listing on the New Board PREMIUM, we suggest relaxing the profit requirements but allowing companies with large market capitalization, proven business record and sustainable cash flow to list. It is worth noting that in the US stock exchanges, quite a number of sizable listed New Economy companies are still not profit making, or barely profitable, such as Snap Inc. and Tesla Motors Corp., but they have positive operation cash flow and fast growing revenue. These should be the characteristics that we look for in companies for our New Board PREMIUM. In terms of size, we suggest that companies to be listed on the New Board PREMIUM should have a market capitalization of at least HK$8 billion immediately post IPO. This benchmarks against the "unicorn" enterprises which are early stage companies that enjoy a valuation of US$1 billion or higher. We believe this is a good threshold to determine whether the company has a sound business with good prospects and command sufficient liquidity in the secondary market of its stock.

Should the New Board be Open to New Economy Companies Only?

Although we agree Hong Kong should attract the New Economy and technology companies, we recognize the definition of New Economy is hard to pin down, and as more and more traditional businesses go online, the definition of New Economy or internet companies are becoming blurred too. But this should not deter Hong Kong from pursuing these companies. The Exchange should work with market participants and develop a clear set of criteria or characteristics that will better define such companies. In any event, this issue must not be allowed to hamper or postpone the overall reform process.

Nonetheless, we would not suggest the New Board PREMIUM be limited to the New Economy or technology companies, although they would be our primary focus. Rather, the New Board PREMIUM should also be opened up to companies in other industries that also have non-standard governance features. Say for example, e-shopping related logistics companies that require a high level of capital expenditure and have gone through a few rounds of funding, resulting in a dilution of the shareholdings of their founders, who as a result, might want to adopt NSGS features. These companies should not be excluded from the New Board PREMIUM. We therefore believe that the industry specification for the New Board can be relaxed.

Shall we allow companies with a "centre of gravity" in Greater China to seek secondary listing in Hong Kong?

We appreciate the good intention of this proposal which is to lure back mainland companies that are already listed on overseas exchanges, in particular those Chinese internet giants that are listed in the US, such as the likes of Alibaba and Baidu. However, we do have some reservations about it. Firstly, it is uncertain whether these companies, which have already established a stable shareholder base and have wide research coverage in the US, would bother to seek a secondary listing in Hong Kong. Secondly, such a provision would send a wrong message that Hong Kong is willing to settle for being a secondary listing market. Given our international stature, sound market fundamentals, our proximity to the mainland and the affinity of our cultures, Hong Kong should be the destination of choice for New Economy as well as Old Economy mainland companies.

As a renowned international financial market, Hong Kong has the capability to facilitate the listing of these companies and regulate them at the same time, but not outsourcing its regulatory role to another jurisdiction. This provision will downgrade the Hong Kong stock market to a second tier market and many Chinese mainland companies will seek a primary listing on a first-tier market and at the same time a secondary listing on the Exchange, thereby marginalizing the Hong Kong market and lowering its status. This would undermine the Exchange's efforts in creating the New Board to enhance Hong Kong's position as a foremost capital formation centre for New Economy companies from the mainland.

GEM Board Positioning

While we will respond to the Questionnaire on Review of the Growth Enterprise Market ("GEM") and Changes to the GEM and Main Board Listing Rules in a separate submission, we would like to address the question about the positioning of the GEM Board here as it relates to our standpoint that the proposed New Board PRO is unnecessary for Hong Kong at this stage. As aforesaid, we do not see much merit in allowing infant companies with insufficient track record to come to the public market but believe that they should only do so at a later stage when they become more sustainable. The GEM Board has been a key component of a multi-tier capital market of Hong Kong. As we do not support the proposal to create the New Board PRO, we submit that the GEM Board should be kept and positioned as a market for small to medium sized companies. As such, we further submit that there is no need to change the market capitalization and cash flow requirements imposed on the listing applicants to the GEM Board.

Indeed, a lot of the current problems associated with the GEM companies are not attributable to the quality or size of the companies but stemmed from the behaviours of the controlling shareholders and connected parties of the problem companies. Many of these problems can be dealt with by strictly enforcing existing rules and regulations and applicable laws relating to market manipulations. The market has recently felt the positive effects of a tightening of the application of rules by the Exchange and heightened enforcement by the SFC as we see a dwindling of "shell company manufacturing" activities and lessening of abnormal share price volatility. This demonstrates the power of effective enforcement and that drastic change to the existing listing and regulatory framework is not necessarily called for. We are in support of the regulators stepping up their enforcements efforts as provided by their powers.

We propose that the market capitalization requirement for applicants to the New Board PREMIUM should be at least HK$8 billion at the time of the IPO based on the expected IPO price. New Economy companies of this size usually have gone through many rounds of equity fund raising and have a wide institutional shareholder base. Thus, although this kind of companies may have adopted NSGS features, they have adopted good business practices and management structure as imposed by their outside shareholders. Therefore, we support the idea that only the New Board PREMIUM allows companies with NSGS features but not the GEM Board, and the Main Board is to be reserved for companies with standard governance structures

The above spells out our views specifically towards the key issues surrounding the New Board and NSGS companies. The need to augment our market is a pressing one and we should not allow potential market abuse to hamper our market development.

The Chamber welcomes the opportunity to further discuss these with the Exchange if necessary.

Yours sincerely,
For and on behalf of
The Chamber of Hong Kong Listed Companies

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Mike Wong
Chief Executive Officer