

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 are supportive on the need for Hong Kong to seek to attract a more diverse range of companies. According to the Concept Paper, the financial and property sectors currently together make up 44% of the total market capitalisation of the Hong Kong market, while the percentages taken up by new economy companies are very limited (Pharmaceuticals, Biotechnology & Life Sciences (1%); Healthcare Equipment & Services (1%); Software & Services (1% if Tencent Holdings Ltd. is excluded)). In comparison, the weight of TMT in most global stock markets is over 20% and in some Asian countries it is well over 40%, with a broad range of names.

We agree the New Board would have positive impact on Hong Kong's ability to attract additional New Economy issuers. The investors have shown their interest in IPOs by pre-profit companies in Hong Kong, such as Meitu Inc. (Stock Code: 1357), which was listed on the Main Board of the Stock Exchange of Hong Kong on 15 December, 2016. The New Board should be able to attract such pre-profit companies from PRC as the investors from Hong Kong are more familiar with the PRC market.

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 believe the targeted companies should be segregated on a New Board, if they are featured with weighte voting rights ("WVR"). The segregation can ensure that only investors with sufficient knowledge in making the investment decision can participate in such offerings.

The GEM market has generally not succeeded in attracting high tech companies with high valuations, as many of the most attractive TMT and pharma companies would come at valuations far in excess of the GEM board. However, the nature of TMT means many of them also would not pass the profitability test of GEM.

Also some companies, such as Alibaba in the past, or the potential listing of its sister company, ANT Financial, require dual class shares. It is our understanding that index providers such as MSCI and ETF providers that track these indices such as Blackrock iShares and Vanguard do not wish for such dual class share companies to be commingled into same index as companies that have a structure of one vote for one share. We therefore think it makes sense to start a new board to attract such dual class share companies.

In the last 10 years, mainland companies listed in the US have raised \$7.8bn in funds, compared to \$7.2bn for companies listed on mainland markets. There is a good opportunity to attract some of these companies, such as Baidu and Alibaba, back to Hong Kong for a dual listing so that investors in Asia can invest in these stocks without time zone disadvantages and so that the issuers can tap into new pools of institutional and retail liquidity via Stock Connect and other means.

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 believe segmenting the New Board into different segments is not necessary. Amending GEM and then adding 2 different kinds of new board will just increase the complexity of investing in Hong Kong stock markets. Companies without some form of financials such as sales are typically too early stage to come to market in any shape or form and are normally still in the domain of late stage private equity investors.

Most companies that aim to float will have some level of sales, but often no profits. There are lots of Chinese companies that have been listed in the US on Nasdaq or with an ADR with sales, but no profits. This did not preclude retail investors from making a judgement on the long term potential of the companies and investing in them. The proposed New Board Pro could lead to a high failure rate of quoted tech companies commensurate with the high failure rate of new companies private equity invests in in areas such as internet. Having such companies quoted in Hong Kong before they have scaled to a sufficient level of sales could damage rather than enhance the reputation of Hong Kong as a listing destination for new economy companies. The attacks from short selling firms on established technology companies such as AAC has already caused some concern.. Having companies list at an early stage of development with the business risks inherent in this could allow more attacks from short seller reports.

We believe it's better to have one version of the new board, i.e. New Board Premium, that allows companies pre profit to float with the participation of institutional, professional and retail investors, while allowing for dual class shareholdings.

We are not sure if the new board should be restricted to particular industries, as it is never clear which formerly traditional industries of the past will emerge as the growth industries of the future. A good case in point is the emergence of the fintech space as an attractive investment opportunity. Companies such as Lufax, China Rapid Finance and Yirendai are all traditionally classed as financial services companies. Yet they all have high tech aspects that make them high growth fintech companies.

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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 believe the GEM should retain its role as stepping stone to the Main Board.
However, a sponsor should be engaged for the transfer from GEM to the Main Board.

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.

The issuers of New Board PRO should be required to engage a sponsor and demonstrate they have fulfilled the listing requirement of the other boards. A detailed prospectus and a public offering should be required.

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.

New Board PRO is proposed to have no track record or minimum financial criteria. We believe track record financial can still demonstrate the operation result of a company from New Economy and that is important for an investor to make a thoughtful decision.

The proposed financial and track record of New Board Premium makes sense as investor eligibility, admission financial requirements and the vetting process are the same as the main board, it just allows for dual class shares, non-standard equity governance structures and the dual listing of companies already listed in the US with standards differing from HK.

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.

The Exchange should have the right to refuse as we do not want companies to arbitrage the system by going for a light touch listing document and vetting process when they should be in fact producing a detailed prospectus and doing a public offer. The more financial disclosure the better and we have seen in the past companies trying to shortcut the process of listing in Hong Kong by acquiring shell companies already quoted on GEM. On the other hand, we believe this should not automatically disqualify an application for the new board and should be assessed on a case-by-case basis.

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 believe if the proposed requirements of New Board PRO is are the same as those that currently apply for GEM issuers at the point of listing, the liquidity of the issuers of New Board PRO would be low similar to GEM. The Exchange may consider opening New Board PRO to experienced retail investors with sufficient knowledge in investment who are fully aware of the inherent risk of New Board PRO.

If Hong Kong is to allow companies with no financial record to list it is all the more important to be able to provide liquidity so that these copmanies can raise more capital and investors can exit the shares if they believe its fundamentals have changed. Perhaps a designated market maker for each share should be required.

With regard to the minimum number of investors, we think 100 may be difficult for certain issuers but as stated above we also recognize the importance of liquidity. We would suggest the Exchange consider another criteria on the concentration of top shareholders (for example, a requirement that the top 15 sharheolders do not exceed X% of free float if there are fewer than 100 investors).

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.

Shareholder protection requirement should not be exempted because of the applicant is listed in other listing venue. Regulators from Hong Kong could not control the requirements of other listing venues. However, applicant to the New Board should be allowed to apply for a waiver on the shareholder protection requirement and that should be reviewed on case by case 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 on the relaxation on the profit requirement if the applicant could demonstrate the business model is solid, sustainable and profitable. However, given the proposed applications to New Board Pro are higher risk companies, a lighter touch approach is not equivalent to what a PE investor would expect to make a similar investment at a similar stage in the company lifecycle. They would not only expect detailed historical financials, but also a 3-5 year company forecast and detailed financial models. In this sense, a lighter touch approach doesn’t seem to be in the best interest of investors. A detailed private placement type offering document with financials and forecasts should be required.

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.

New Board PRO should be limited investors who possess the experience and knowledge in investment and are fully aware of the inherent risk in investing in the New Board. We believe New Board PRO should be open to qualified retail investors in order to enhance its liquidity. This also provides investment opportunity in high-growth companies to more investors if the Exchange believes that New Board PRO could bring in more high quality new economy companies.

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 special measures should be simple and should not be a barrier to investors. If the measure is too stringent, it may hurt liquidity and incur additional costs to both issuers and investors.

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 believe only financial services firms with the qualification to be a sponsor can be the Financial Advisor to an applicant. The Financial Advisor should possess sufficient industry knowledge. We would ask the Exchange to provide detailed guidance on due diligence requirements. We would also suggest that the concept of a market maker and corporate broker, currently in practice in the UK, be examined as it is imperative to ensure the company has trading liquidity and research coverage for price discovery.

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 believe the proposed role of the Listing Committee in respect of each segment of the New Board is appropriate. We also suggest that additional industry experts should be added to the Listing Committee to provide their insight on the relevant industry.

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.

We believe disclosure should focus on the business of the applicant, the industry and the future development strategy. Risk disclosure should be enhanced to be specific to the applicant's situation. If there is WVR, that should be highlighted to investors.

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 current proposal is for the same ongoing obligations to equally apply to the New Board Pro and Premium, with the exception of the time period for delisting. We think these make sense.

Non-financial operating data may be disclosed regularly, which may be a better measurement on the performance of the companies.

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 refer to question 18 below.

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.

We believe mandatory safeguards would provide better protection to investors and meanwhile it would allow the founder(s) of the applicant to avoid dilution of control after listing and to deliver long-term best results for the company.

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.

Similar to our response above in question 9, the requirements of listing in New Board should not be exempted because of the applicant is listed in another venue. However, requirements of listing in New Board could be waived on case by case basis. If companies have a good compliance record on NYSE or Nasdaq the Exchange can allow such companies to list on New Board under the "disclosure only" regime.

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

Please give reasons for your views.

It makes sense for the delisting of a New Board Pro listed company to occur in a shorter time frame than New Board Premium given the risks, but this underscores the importance of having sufficient liquidity so that investors (particularly minority shareholders) can sell their shares if they think fundamentals are worsening. Minority shareholders would have difficulty in realizing their investments in suspended or delisted 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 do not believe it is necessary to set quantitative performance criteria. There is no such criteria to maintain a listing on the Main Board and GEM Board. Furthermore, the purpose of the New Board is to target issuers from New Economy which conventional quantitative performance criteria might not be a good measure to these companies.

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 believe the same standard of enforcement regime should apply to the New Board. The enforcement regime should be the same among New Board, the Main Board and GEM and among different industries of issuers regardless whether they are from new economy or not.

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