

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.

Conventional capital markets cater for developed profitable companies, which often command high valuations and are expensive entry levels for investors. Global financiers and investors continue to look for early stage companies, those under-valued with high growth prospects, to fund and invest. Many of these companies come from the health science or information technology sectors. We agree that Hong Kong, as a recognised international stock financial centre, lacks investment options in this segment, should set up the New Board for these companies to list and trade, or else it will lose its competitive edge as one of the top financial centres.

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.

GEM was originally targeted for high growth companies. The type of companies which are now listed on GEM are traditional, mixed and most are not high growth. We agree that the stock exchange needs to re-brand the boards to maintain its competitiveness. In particular, targeted companies which engage heavily in research and development in designated sectors such as biotechnology / biomedical should be segregated onto a New Board. There are investors out there who understand these companies and the risks / rewards associated with them.

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 have investments and operations in the biotechnology and biomedical sectors. Professional investors have already been investing into such companies, whether private or listed (NASDAQ / London AIM or elsewhere), for a long period and are familiar with the risks / rewards associated with such companies. We can confirm that there is strong demand for such a platform and agree with the stock exchange's proposal to restrict the New Board to companies in the New Economy, and clearly biotechnology and biomedical falls within the scope of New Economy. The stock exchange should however adopt an open mindset and assess each company on a case by case basis if it does not fall under the distinct New Economy definition.

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.

The New Board should be taken separately if the stock exchange intends to adopt a lighter touch approach. GEM and the Main Board can act as references for the overall listing framework. Similar to Chapter 18 of the Main Board listing rules for mining companies, there are certain circumstances which apply to particular companies / industries. Our view is that the initial listing requirements for the New Board should be independent of GEM and the Main Board, while the New Board can adopt similar continuing obligations of the existing listing rules.

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.

Our group previously has experience in moving from the GEM to the Main Board in 2010 with the issue of a full circular (similar to an IPO prospectus), and without the need of a public offer. The then transfer was a long, tedious, inefficient and costly process. Our view is that the transfer process between different boards of the same stock exchange should be simple and efficient so long as the company satisfies the requirements. Assuming that the companies fulfill the requirements of the other boards, they will no longer be at pre-profit stages, opening up to retail investors and adopting a public offer would be appropriate. This would enhance the liquidity of the shares of the company.

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 companies on the New Board should not have track record and / or financial record. Again, these are the under-valued companies with high potential which investors look for in pre-profit companies. Investors do appreciate that biotechnology / biomedical companies need to incur substantial upfront research and development costs, and takes time to conduct clinical trials. Such companies are often acquired by large pharmaceutical companies during the clinical trials process, sometimes without commercialisation and revenue. Companies listed on NASDAQ would be a good reference.

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 do not agree that the stock exchange should reserve such right. The listing applicant should have its own choice to choose which board it wants to list. Each company has its own justifications for choosing the board or place it wants to list on.

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 proposed 25% public float for the New Board Pro is reasonable. For companies in the New Economy such as biotechnology / biomedical, the historical trend on the number of investors would range from 25 to 50. Interest and funding are definitely available, but to attract more companies to the New Board, we would suggest a lower the minimum number of investors at listing from 100 to 75, on the basis that the stock exchange is proposing only professional investors are eligible to invest.

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.

Professional investors in Hong Kong acknowledge the risks associated with investing into companies of different backgrounds, especially if they are listed on a Recognised US Exchange. Enforcing shareholder protection standards equivalent to those of Hong Kong would potentially push companies away, and Hong Kong will lose its competitiveness.

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, from our experience with the stock exchange, each company is different and so the stock exchange should maintain flexibility, have a open mindset on its approach and apply a "lighter touch" suitability assessment, where appropriate, to adopt the unconventional approach.

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 agree that professional investors should definitely be eligible to invest on the New Board. However, due to consideration given to liquidity subsequent to listing, the stock exchange should consider broadening the definition of professional investors, not just limiting net worth of US\$1 million or equivalent, and to include investors who make a reasonable amount of income. Reference can be made to the definition of "accredited investors" in the US, say those making annual income of US\$200,000 or more. The objective is that the New Board should be open to investors who have experience in investing in multiple stock exchanges, companies of different sectors and at different stages, and in particular, acknowledge the risk of investments and would not expect to be compensated in case of loss in the stock market.

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 compliance department of Exchange Participants has the responsibility and should have measures such as making investors confirming the required networth at the time of initial placing as well as regular updating if they are active in the secondary trading of New Board PRO-listed securities.

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 agree that appointing a financial adviser, rather than an IPO sponsor, would lessen the cost burden for companies intending to list on New Board Pro. Again, companies in the New Economy will be unique and all different, so it may be difficult to pre-fix specific due diligence requirements. Qualified and experience financial advisers would know what is required to fulfill their responsibilities.

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.

If the stock exchange intends to adopt an easy come easy go approach for the New Board Pro, the Listing Committee can randomly pick a company for review, and leave majority of the vetting responsibility to the Listing Division. The key is the listing document / information memorandum is a disclosure based document and there is sufficient information for investors to make an informed decision.

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.

Again, each company in the New Economy would be unique and different, and may be at different stages of the science. We agree on the disclosure base listing document, which companies adopt for private placement investments.

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 believe that the stock exchange can make reference to GEM and the Main Board for continuous listing obligations for the New Board. We have experience with a Chapter 18 Main Board mining company and it worked well.

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 mainly exploring the New Board Pro and do not have any comment on WVR.

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 are mainly exploring the New Board Pro and do not have any comment on WVR.

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 are mainly exploring the New Board Pro and do not have any comment on WVR.

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

Please give reasons for your views.

Although the stock exchange intends to adopt the easy come easy go approach, delisting a company under inappropriate circumstances may pose significant issues in the long run. Companies should be given more time (say 180 days) to justify their suitability and also the stock exchange should highlight the specific circumstances which companies' shares are suspended and leading to the delisting route. We would expect that companies would immediately seek professional advice from financial advisers and lawyers when their shares are suspended, and would use their best endeavours to avoid delisting.

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 think quantitative performance such as maintaining a certain share price would work as valuation of a company is driven by, among other things, market dynamics. Setting such criteria may lead to market manipulation activities.

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 what the stock exchange has proposed here is an appropriate balance.

- End -