

[REDACTED]

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Dear Sir/Madam,

**Re: (1) New Board Concept Paper, and
(2) Consultation Paper on Review of the Growth Enterprise Market
(GEM) and Changes to the GEM and Main Board Listing Rules**

As a market participant in the Hong Kong securities market with more than 20 years experiences, [REDACTED] would like to reply to the captioned papers as below:

1. **We agree that the proposed optimization of the listing rules and regulations would be beneficial for Hong Kong's position as an international financial centre**

Hong Kong stock market has always been one of the most developed markets in the world. In the past 20 years, the scale and sophistication of the investment market has changed a lot. It is important to ensure that the listing rules and regulations are up-to-date and adequate for the current global economic development, thus it is good to review and optimize the relevant rules in order to stay competitive and attract more potential issuers as well as investors to the Hong Kong market. Along with the fast development and huge potential from the New Economy companies all over the world, we have all realized that it is time to make necessary amendments to adapt to the new investment trend. We believe continuous efforts in the listing structure improvement as well as enhanced monitoring on the issuers would be essential to maintain the quality of the Hong Kong Securities market.

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2. We agree with the establishment of the New Board PREMIUM (or necessary amendments on the Main Board) in order to attract New Economy companies to get listed in Hong Kong

The proposed New Board PREMIUM would be the blueprint for future long term development. We understand that many of the New Economy companies are achieving fast growth compared to traditional industry players in recent years. For example, the leading corporates in IT including Alibaba, Amazon and Facebook etc. have all been well recognized all over the world, while their performances in the capital markets have received a lot of attention from investors. It is a good idea for the Stock Exchange of Hong Kong to propose the establishment of the New Board which accepts Weighted Voting Rights ("WVR") arrangement, so that we could attract more New Economy companies to come to the Hong Kong capital market for listing and further development. This would provide more dynamic options to investors in Hong Kong, and we can strengthen our competitiveness as an international financial centre with a friendly fund raising platform.

Once the New Board PREMIUM is launched, there may not be significant results in the first few years. However, the New Board PREMIUM provides a platform for the New Economy companies which adopt Weighted Voting Rights and plan to get listed, would bring in strong positive effect on the Hong Kong capital market.

While we are trying to attract some very popular New Economy companies to come to Hong Kong for IPO, we are facing severe competitions from different stock exchanges globally, especially the US. One of the major reasons for New Economy companies to choose the U.S. market for IPO is that WVR structure could be allowed there. Although only 33 out of 116 Mainland companies with primary listings in the US have WVR structures, their combined market capitalisation of US\$561 billion represents 84% of the market value of all US-listed Mainland companies. Their market capitalisation is equivalent to 15% of the entire market capitalisation of the Hong Kong market. Moreover, 18 out of these 33 US-listed Mainland Chinese companies with WVR structures are from the IT industry in which the Hong Kong market is underweight. Should these companies come to get listed in Hong Kong instead, they are very likely to bring in growth momentum in the Hong Kong market.

On one hand, introducing the New Economy companies into the Hong Kong capital market could drive the growth in trading volume in the securities market and facilitate a more dynamic investment environment. On the other hand, whether the launch of the New Board could be successful depends on if the market would be attractive and active enough, on which the Stock Exchange of Hong Kong may need to spend resources on the promotion and market education.

As launching the New Board and turning it into success may take years and even longer, another option is making amendments on the existing listing rules of the Main Board or handling new listing requests with a certain level of flexibility to accept the WVR structures which is well adopted among New Economy companies. We all hope the process to be cost effective and efficient after all.

3. Cautious planning and execution is recommended for New Board PRO

Compared with New Board PREMIUM, the entry requirements for New Board PRO are much lower, therefore there would be high risks, thus it is supposed to be suitable for professional investors but not retail investors. New Board PRO would be a good platform for start-up companies to increase the market recognition and facilitate their business expansion with fast growth. However, these companies may not be able to ensure profitability as there is no track record required, and the low requirement for New Board PRO listing may lower the average quality of listed companies in Hong Kong. If retail investors are excluded in the New Board PRO, the investor coverage is comparatively narrower. With lack of different compositions in the shareholder base, it is possible there is not enough liquidity and investors would subsequently lose interest. Another potential issue is that the shareholding may be highly concentrated in the hands of a few investors.

We recommend the Stock Exchange of Hong Kong should carefully consider the possible scenarios and issues, and be more cautious in the planning and execution if the New Board PRO is to be launched one day.

4. We agree with making necessary changes to the GEM and Main Board Listing Rules for better monitoring, this will encourage listed companies to achieve sustainable improvement

Main Board:

We agree with the proposals in the consultation paper including the followings:

- No changes to the current Profit Requirement
- Increase public float value requirement
- Increase minimum market capitalisation requirement
- Longer lock-up on controlling shareholders

GEM Board:

The revamped GEM regime has been in operation for almost nine years. In recent years, there have been comments that the current GEM requirements have been exploited by some market players, which may have potentially led to a disorderly market in the shares of some GEM issuers thereby affecting the overall quality of the market. We all welcome new measures to be taken in order to optimize the listing rules and regulations, so as to achieve better control on the issuers' performance post listing.

First of all, we agree with introducing a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs. This could eliminate the possibility of a high concentration of shareholding, illiquid shares and increased price volatility post listing. In addition, we agree with the proposed ideas in the consultation paper including the below as they are well accepted in the market:

- Increase the cashflow requirement
- Increase the minimum market capitalisation requirement
- Increase the post-IPO lock-up requirement on controlling shareholders
- Increase the minimum public float value

However, we think it is still important to maintain GEM Board's positioning as a "stepping stone" to the Main Board as it provides a listing channel for smaller companies. This is a great platform for SME companies to achieve fund raising for further development with the goal to become Main Board listed companies one day. Of the 137 GEM Transfer Applicants from 2003 to 2016, 72% (99 of 137) successfully transferred to the Main Board whilst 28% (38 of 137) were unsuccessful. The GEM Streamlined Process is cost effective and less time

consuming, which encourages the GEM applicants to make good use of this platform for sustainable development. Instead of removing the GEM Streamlined Process, we recommend adopting some amendments in the existing rules, including requesting GEM listed companies to provide and disclose all necessary information, or applying a more strict approval procedure on transfer request to the Main Board.

We hope that the above opinions could be helpful for the Stock Exchange of Hong Kong to improve the relevant listing rules and regulations. We have trust and confidence in your guidance, and we look forward to having a more competitive investment environment in Hong Kong.

Yours faithfully,



Part B Consultation Questions

Re: New Board Concept Paper

Question 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 that it is a good idea for Hong Kong to launch the New Board scheme to seize the opportunities to attract New Economy issuers. We all understand that, expanding the current regime to provide access to a more diverse ranged of companies, including the fast growing New Economy companies, could have positive influence in the Hong Kong market and provide more options to the investors.

Question 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.

- Either way could be feasible, as long as relevant rules and regulations are clear. Compared with setting up a New Board, we might also explore the possibility in making some adjustment on the existing listing rules, whichever that is more efficient and more cost-effective.

Question 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.

- If a New Board is adopted, it would need sufficient guidance, especially which industries are encouraged to be listed in the New Board. We agree with setting up some restrictions as there could be higher risks in the New Board, yet these restrictions would have to be reviewed regularly with timely adjustment whenever necessary. It is also important to consider

shareholders protection standard, if there are different segments within the listing board.

Question 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.

- Main Board would still remain its solid position, yet we are afraid that GEM Board might lose its competitiveness if the New Board PRO is adopted or the GEM Streamlined Process is cancelled

Question 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 listing criteria should be consistent. We agree such companies would have to meet all the admission criteria and other listing requirements of the relevant board. Requirement of public offer would be good for achieving sufficient public float, which is essential on the Main Board and GEM Board.

Question 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.

- The proposals are reasonable in general.

Question 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.

- Agreed. Each Board is set up for companies that could fulfill different requirements so this measure is reasonable.

Question 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.

- The proposed requirements are reasonable.

Question 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 do not agree with such exemption. It is still necessary for them to demonstrate that they are subject to shareholder protection standards in Hong Kong.

Question 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 with adopting some flexibility in the assessment, however, a "lighter touch" does not necessarily mean a lower standard. It is still important to ensure the new applicants' business have certain growth potential so as to attract issuers that have good potential.

Question 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 would definitely have higher risks compared to the other Boards given its lower requirements. There are pros and cons in restricting the investor types. If there are only professional investors in this market, we need to look out for high concentration of shareholding and the market liquidity issues. If retail investors participate in this market, they might not

be able to understand all risks. Therefore, it is important for all New Board PRO applicants to fully disclose the risk factors. We tend to agree with allowing retail investors to participate so long as there being full and clear disclosures of those applicants' business models and the related risks.

Question 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?

Please give reasons for your views.

- We agree with this idea, yet we will wait for further details about these measures for further discussion.

Question 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 for IPO listing might be more cost effective so that the New Board PRO listcos could spend more resources on its own business development. However, the applicant may be required to appoint a financial adviser to conduct due diligence.

Question 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 agree with the proposal. Suggest to perform review and collect feedback after the New Board is launched for continuous improvement.

Question 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?

Please give reasons for your views.

- Yes. We agree with such suggestion but we await further details about the disclosure requirement. Besides, profit forecast might be helpful for investors to understand the prospect of the company better.

Question 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 agree with the proposed continuous listing obligation for the New Board.

Question 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 agree with such approach and it should apply to both segments of the New Board.

Question 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.

- N/A

Question 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 do not agree with such exemption. They still need to follow the standard procedure to be listed in Hong Kong.

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

Please give reasons for your views.

- Such proposals are reasonable in general, yet there should be flexibility in execution.

Question 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 think the growth potential of the company would be more important than the quantitative performance review for the New Board. We will wait for more details of such quantitative performance criteria for further discussion.

Question 22: Do you consider that an even “lighter touch” enforcement regime should apply to the New Board (e.g. an exchange-regulated platform)?

Please give reasons for your views.

- No. The enforcement regime should follow the existing standard.