



Response to the HKEx's New Board concept paper

One challenge startups commonly encounter is the difficulty to raise capital which is why new channels for drawing funds is vital to the growth of the technology startup community and the development of innovation and technology of Hong Kong. As such, we appreciate the HKEx's initiative to introduce this concept paper for market consultation.

On another front, Hong Kong needs to embrace changes to remain competitive as an international financial centre. Additional channels for the access of funds would attract more companies to come list in Hong Kong and investors looking for an array of investment opportunities. With Listing Rules that keep abreast with times and at the same time, being relevant and accommodating, Hong Kong will be able to capture the opportunities from New Economy and further enhance Hong Kong's leading position in financial services.

We agree that new measures are needed to attract more companies with diversified backgrounds to list in Hong Kong. With these views in mind, we are, in principle, supporting the New Board proposal which comprises of two segments targeting earlier stage companies and companies meeting the requirements of the Main Board but are currently ineligible to list in Hong Kong. However, the consultation paper has yet to explain in detail the protection to shareholders with this proposed New Board, in particular when Hong Kong currently lacks the concept of class action as in the United States.

Ideally, the initiative will provide new financing opportunity for startups and shape Hong Kong into a regional hub for fast growing companies in China and Southeast Asia to establish businesses in the city, which will ultimately help build an ecosystem for innovation and technology to thrive.



However, it is important that new measures have to be in place with the New Board to address the underlying issues and problems with the Growth Enterprise Market (GEM) we saw in the past, such as the lack of liquidity, the existence of shell companies and stock concentration causing high volatility.

We maintain that the risks to investors and high net worth individuals should be well addressed and minimised. Clear and appropriate rules and criteria for listing on the New Board are crucial in building confidence among investors and companies considering to list in Hong Kong.

During this period of consultation, we have also solicited views and opinions from the local startup community. We saw a consensus among startups that the concept of establishing a New Board will help them expand and offer them the opportunity to reach out to the professional investors with higher risk tolerance. Yet, the probable high cost that comes with listing is a major concern among startups.

Key issues and concerns

For HKEx to launch the proposed New Board as early in 2018, careful deliberation has to be made and the following concerns and suggestions have to be addressed and taken into account:

Definition of New Economy

- With the definition of New Economy still lacks the consensus in the society and in paragraph 101, HKEx also admits to the difficulty in defining the so called “New Economy companies”, **we are concerned the vetting process will result in confusion**. Measures have to be in place to counter deception, such as traditional businesses purporting to engage in “New Economy” or spin off their business units and put on the “New Economy” label to deceive investors.



New Board PRO

- **The New Board PRO should cater for companies demonstrating high degree of innovation and technology.** HKEx should issue guidelines on the eligibility of listing on a regular basis so as to provide clarity and objective standards to companies who are considering to list on the New Board PRO.
- Paragraph 138 proposes that to list on the New Board PRO, listing applicants will be required to have a minimum of 100 investors. We believe this is **a challenge too high for pre-profit startups.**
- As the New Board PRO targets early stage companies which are often without solid or proven financial performance records, the risk in investing in these companies is inevitably high. As such, **we agree that the New Board PRO should be restricted to professional investors** who have the experience and financial strength to involve in the investment of the relative high risk companies. We believe the investors in the New Board PRO are responsible in providing true information and document to the Exchange Participants and are also responsible for their own claims as professional investors.
- It is proposed that the New Board PRO will not require an issuer to have a track record but **a reasonable proof of track record from listing applicants would serve to give more confidence to the professional investors.** And as the HKEx's proposal also suggests that it is not necessary for listing applicants to issue a Prospectus for the New Board PRO, we suggest HKEx to explain in detail, if there is a further consultation in the future, the mechanism to protect investors.



New Board PREMIUM

- We acknowledge that the New Board PREMIUM will open to retail investors. However, this brings out questions on how such a “lighter touch” approach in the consultation paper will deal with issues such as the **dual class shares or other unconventional governance structure in the cases of the transfer of voting rights, restructuring and share dilution.**

Listing Document

- As for the Listing Document for the New Board PRO, there should be **more mandatory requirements on top of the “disclosure-led” approach** to ensure investors can make informed decision over applicants with Weighted Voting Rights structure.
- For cost reason, we agree the submission of accurate information is sufficient and a Prospectus is therefore not necessary for the New Board PRO. **Emphasis should be given to the credential and backgrounds of the founders** who play the most important and influential role in the so called “New Economy startups”. We would also like to emphasise the importance of transparency and truthfulness of the documents and disclosure, and the need for extra measures to ensure that companies seeking to list and maintaining their listing status will comply with the regulations. We suggest the **requirements for financial reporting, such as the financial forecast, should adhere to the same standards as in the Main Board.**

Issues with the Weighted Voting Rights structure

- Both segments of the New Board proposal will allow WVR companies to list. We suggest the HKEx to consider setting out **principles of permitted arrangements and minimum requirements.**



- How the special rights be transferred or reconciled with new investors' rights should be clearly disclosed should there be any pre-listing arrangements. **The Consultation Paper has yet to explain in detail how to protect shareholders in companies with the WVR structure, especially when the class action concept we see in the United States is absent in Hong Kong.**

Remarks

New Economy has greatly changed the economic environment globally and it is essential for Hong Kong to shape an ecosystem that supports the analysis and appraisal of the New Economy companies to remain competitive. Our edge in being an international financial centre owes much to the well-established financial regulatory framework and we have to continue to uphold these standards and safeguard the rights of investors.

And though we, in principle, support the New Board proposal, we are disappointed that the consultation paper fails to explain in detail that with the Weighted Voting Rights structure to be introduced in Hong Kong and in the absence of the class action concept we see in the United States, protection to shareholders are uncertain.

Transparency and consistency are important to maintain confidence in the market. Evolving mechanism and more guidance to lower the uncertainty and make the vetting process more objective are equally significant. We very much hope the HKEx can take into account the above views and suggestions, and we believe the key to the success of the proposed New Board lies in three factors: Quality, liquidity and transparency.

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