

JOYCE

FAX TRANSMISSION COVER MEMORANDUM

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To : Corporate Communications Department, c/o Hong Kong Exchanges and Clearing Limited

From : Kevin Hui – Company Secretary No. of Pages (including cover) : 4

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Dear Sirs

Re: Joint Consultation Paper on Proposed Enhancements to the Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation

With reference to the JOINT CONSULTATION PAPER of June 2016 regarding "Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation", I, as the company secretary of Joyce Boutique Holdings Limited ("JOYCE"; stock code: 647), now submit on JOYCE's behalf our views in response to the joint consultation as per the attached pdf file.

[REDACTED]

Kevin C. Y. Hui
Company Secretary
Joyce Boutique Holdings Limited

JOYCE BOUTIQUE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

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JOYCE

Views of Joyce Boutique Holdings Limited on SFC-HKEx Joint Consultation on Listing Regulation

Why we object the proposed structures?

It Radically Changes the Proven Three-tier Regulatory System

The proposed structures would effectively operate to abolish the existing three-tier regulatory structure (Government, SFC and Listing Committee) which was first proposed in the Ian Hay Davison Report published in 1988 whereby front-line regulation is handled by the Stock Exchange, IPO approvals and listing rules formulation and amendments are handled by the Listing Committee composed of market participants and professionals. The back-line regulator is SFC which under SFO has veto powers and rule-change powers.

This system has been working well since 1988, and reaffirmed by the Government in 2003. Hong Kong has become the home market for Chinese enterprises. Hong Kong was No. 1 in the world in 2015 and 2016 in capital raised. However, the proposed structures give SFC the front- and back-line regulatory authority without check-and-balance of its all-encompassing power.

Proposed Structures Unjustified for its Stated Objectives

The stated objectives of introducing the proposed structures are to achieve closer coordination and cooperation between the SFC and the Exchange on policy formulation and to provide SFC with earlier and more direct input on listing policy matters and listing regulation, and to streamline the processes for making important or difficult listing decisions. But at present, there are various channels and mechanisms under the current three-tier regulatory system for achieving these objectives, such as the Securities and Futures (Stock Market Listing) Rules; Rule 2.04 of the Listing Rules; and paragraphs 6.5 and 6.6 of the Memorandum of Understanding Governing Listing Matters, and the Listing Matters Liaison Meetings.

The SFC is being kept fully informed of any listing application, is adequately capable of intervening at an early stage, and has oversight and control of the formulation and administration of the Listing Rules and listing policies. The objectives of the proposals can be achieved under the current arrangements (e.g. SFC may seek to nominate more representatives to serve as members of the Listing Committee). There is no need to introduce the proposed structures, namely, the creation of two new committees above the Listing Committee: the Listing Policy Committee (LPC) and Listing Regulatory Committee (LRC), with both committees being dominated by SFC through its control of who can become members.

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Listing Committee (LC) being Sidelined

The LC is sidelined and relegated to a marginal position to preside over only common routine IPO and Post IPO matters. The proposed LRC will oversee, give guidance and decide matters that involve the suitability for listing of a new applicant and its business. It is possible that a high percentage of cases would be referred to the LRC, whose decisions would lack market input and perspectives. Although LC can give its views on the IPO cases considered by the LRC via the LC Chairman and the two deputies (who are members of LRC), their views are non-binding. LC would effectively become a consultative committee.

The LC members have diverse expertise, experience and market perspectives, which can complement the regulator's perspective. However, under the proposals, the LC's role will be limited and its contribution to the market significantly reduced.

Listing Policy Committee Dominates the Listing Rules Regime

The proposed LPC is to initiate, steer and decide listing policy proposals and proposed Listing Rules amendments, including market consultations and other matters that have policy implications or general effect. It will have overall control over the Listing Rules regime and that affects all listed companies of Hong Kong. The authority of the SFC would become extensive and far-reaching. Although the LC would be invited to give opinions to matters considered by LPC, their views are non-binding.

LPC would also appraise performance and recommend salary of senior staff of the Listing Department with input from the LC. Giving these powers to a SFC-led committee is like making the Listing Department subordinates of the SFC, effectively giving it full control of what is traditionally an Exchange function.

SFC Wields Absolute Power in both IPO Approval and Policy Setting

The proposals give SFC outright power on top of its veto power. At present, decisions by the LC, be it about IPO applications or Listing Rules, are made after thorough discussion by seasoned market practitioners. Unless there is a compelling reason, the SFC veto power cannot be exercised arbitrarily, and the basis for exercising such power must be well-substantiated. Under the new structures however, the LC is bypassed (at most offering their non-binding views), and the LRC and LPC will make final decisions based on much narrower perspectives.

Proposed Structures Unnecessary for Combating Current Market Problems

It is believed that the proposed structures aim to combat the widespread reverse takeovers and suspected manufacturing of shell companies. However, the aforesaid market problems should be tackled by focused and targeted methods rather than changing the fundamental policy/IPO approvals structures. It is the job of the SFC

to police, monitor, and punish wrong doers. The listing function reorganization has no real jurisdiction over market misconduct.

Slowing Down of Market Development

The proposed structures will concentrate power in a few hands under control of SFC which is regulator-minded, which is tend to be risk-averse. It would enable SFC to more easily (and likely on more occasions) shut off the door to more companies, or raising the threshold to such high level that less and less listings will be attracted to Hong Kong. Cost and uncertainty of IPO to SMEs would likely become higher. This might weaken Hong Kong's position as an international financial center. The primary role of the SFC is to regulate and not to lead market development.

Conclusion

The proposals give SFC all-encompassing control over regulatory and listing matters, with power concentrated in a few hands without proper checks and balance. It is likely that the adverse impact resulting from implementation of the proposals would more than offset the relevant benefits.

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