NEW BOARD CONCEPT PAPER AND LATEST MARKET DEVELOPMENT



AGENDA

1 Introduction

New Board Concept Paper

3 Market Update

4 Conclusions



HKEX's Listing Reform Proposals

HKEX has recently issued two papers seeking feedback on proposed market enhancements:

- 1 Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules Consultation Paper ("GEM Review")
- New Board Concept Paper



GEM Review

- Reflect currently acceptable standards in the market
- Address recent concerns on quality and performance

Enhance Quality and Competitiveness of Hong Kong Market

- Improve access to issuers
- Diversify HK's market
- Maintain appropriate investor protection

New Board

- This is a holistic approach
- New Board and GEM Review proposals are complementary to each other
- Focus on the needs of both issuers and investors



Focus on What Issuers and Investors Need

What do **ISSUERS** look for?

- Access to capital
- Clear initial and ongoing listing obligations
- Low listing costs
- High valuations
- Aftermarket liquidity

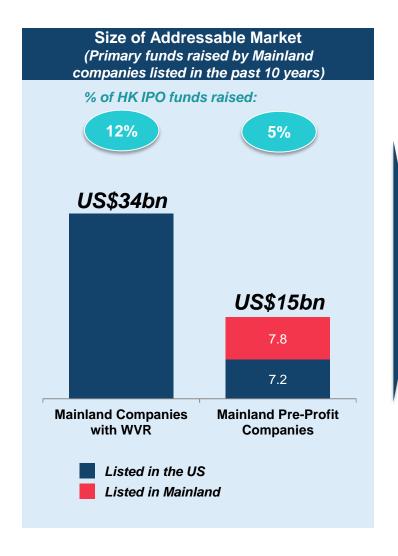
What do **INVESTORS** look for?

- Access to growth sectors
- Diversity of exposure
- Transparent and fair disclosure
- Appropriate investor protection standards
- Liquidity

The starting point for our proposals is to address the needs of the core users of our market



Potential Benefits of New Board











✓ Generate additional tax revenues from trading





Principles Underlying the Proposals

Market Concerns

MARKET QUALITY

- Post-IPO liquidity / volatility
- "Shell" creation
- Circumvention of Main Board due diligence requirements via GEM "stepping stone"

ACCESS TO LISTINGS

- High concentration of "Old Economy" sectors
- Lack of exposures to growth sectors
- Current listing framework does not cater to needs of "New Economy" issuers:
 - Pre-profit companies
 - Non-standard governance features
 - No secondary listings of Mainland companies

How We Address Them

GEM REVIEW

Raise listing criteria

Mandatory public offer to broaden shareholder base and reduce price volatility

Remove Main Board "stepping stone" mechanism

Limit impact on existing issuers and investors

NEW BOARD CONCEPT

Targeted measures to attract New Economy issuers

Widen access to listings

Maintain protection standards appropriate for eligible investors

Remove obstacles to secondary listings by Mainland issuers



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Overview of the New Board

- The New Board would comprise two distinct segments
- Each is targeted at different types of issuers and investors
- Both segments would allow WVR companies to list

New Board PRO

TARGET • Early-stage / pre-profit New Economy companies

INVESTOR ELIGIBILITY

Professionals⁽¹⁾ only

ADMISSION FINANCIAL REQUIREMENTS

VETTING

PROCESS

Light touch

No financial or track record requirements

• Minimum expected market cap of HK\$200mil

New Board PREMIUM

- New Economy companies meeting Main Board financial and other key requirements, but unable to meet certain criteria
 - Non-standard equity governance structures
 - US-listed companies with standards differing from HK
- Same as Main Board
- · Same as Main Board
- · Same as Main Board



Admission Criteria and Listing Process

New Board New Board PRO PREMIUM SUPERVISION Listing Committee and SFC Listing Department LISTING APPROVAL **Listing Committee** Under delegation from Listing Committee **Financial Advisers** LISTING ADVISOR **Sponsor** Type 6 Licence Holders⁽¹⁾ LISTING DOCUMENT Listing Document⁽²⁾ Prospectus⁽³⁾ **OFFER MECHANISM Placement Public Offer** MIN. FREE FLOAT / INVESTORS 25%, subject to 100 investor minimum 25%, subject to 300 investor minimum Must have IOSCO MMOU / SFC bilateral Must have IOSCO MMOU / SFC bilateral **OVERSEAS ISSUERS** agreement agreement No requirement for HK equivalent Waivers for issuers already listed on a shareholder protection as required by the Recognised US Exchange from HK 2013 JPS "equivalent" shareholder protection standards Permits secondary listing of Mainland companies Permits secondary listing of Mainland companies

Issuers qualifying for New Board PREMIUM, GEM or the Main Board may not list on New Board PRO.

The Listing Committee would also retain discretion to require issuers on the New Board to demonstrate that they have the characteristics of a New Economy company



- (1) Subject to market feedback and further consideration by the SFC
- (2) Contains all material information that would be required by a professional investor in order to make an investment decision
- (3) A prospectus refers to a listing document that is required to be registered under Companies Ordinance because it involves an offer to the public

Continuous Listing Obligations and Delisting

New Board

New Board PREMIUM

CONTINUOUS LISTING OBLIGATIONS Companies listed on the New Board would be expected to comply with standards similar to the Main Board:

- Timely disclosure of material information
- Publication of financial statements for the half-year and full-year under prescribed accounting standards
- Notifiable and connected party transaction rules
- Directors' suitability and minimum INED representation
- Company secretary must be appointed
- General meetings will be required
- Super-majority voting is required on certain fundamental matters
- Pre-emption rights for existing shareholders to protect them from dilution

DELISTING

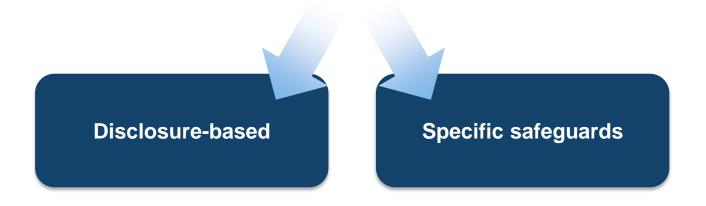
Automatic delisting if continuously suspended for <u>90 days</u>

Automatic delisting if continuously suspended for <u>6 months</u>



Special Considerations for WVR Companies

Two potential approaches:



We are seeking market views as to preferred approach.

If specific safeguards are preferred, market views are sought on appropriate safeguards

Concession for companies listed on a Recognised US Exchange:

- "Disclosure-only" approach for companies with good compliance track record
- Allows listings of WVR companies already listed in the US, without requiring extensive changes to Articles of Association



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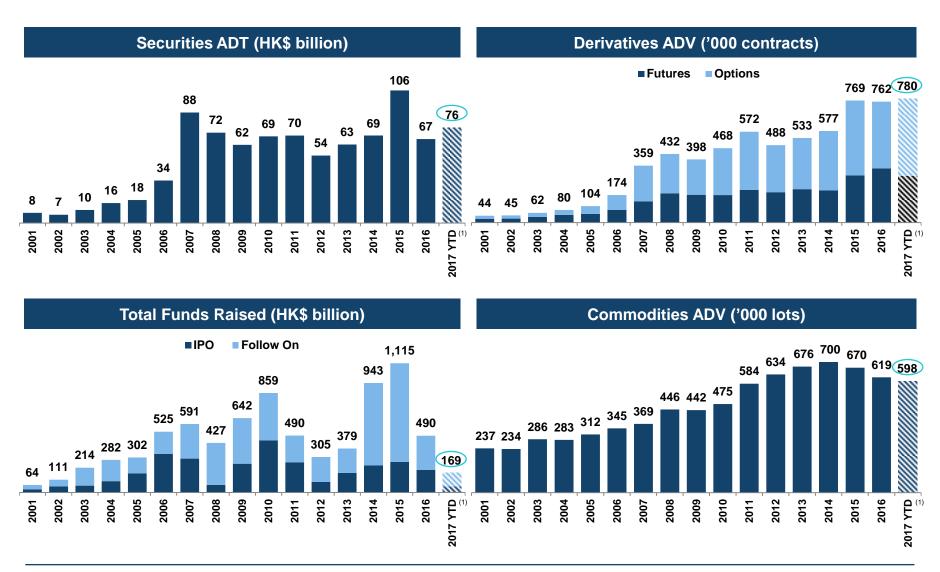
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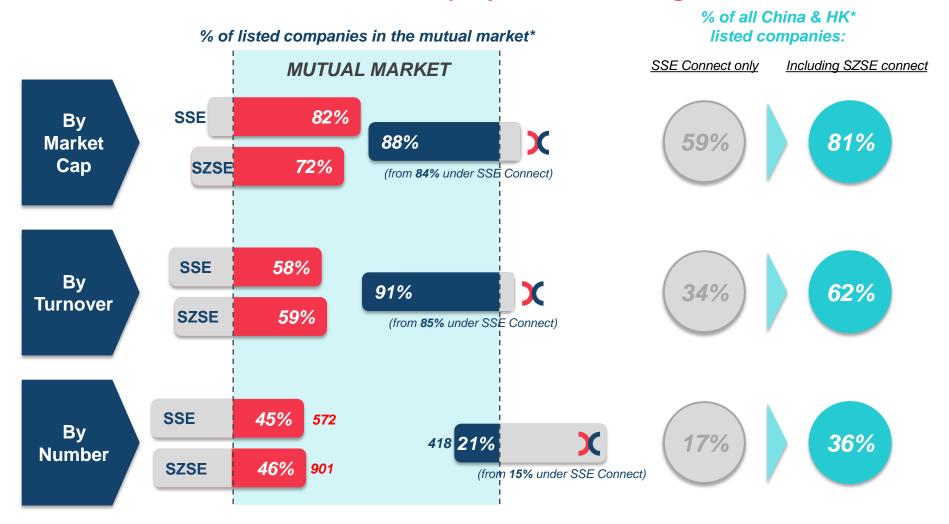


2017 Volume Picked up since February





The Level of Penetration in the Equity Market through Stock Connect

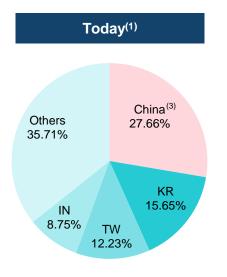


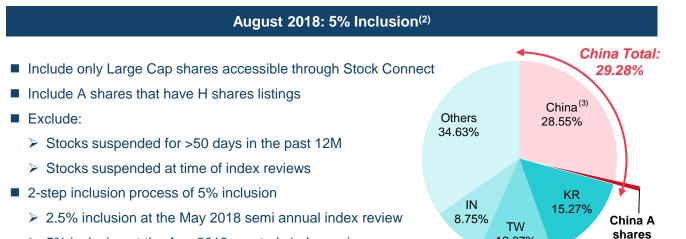
Shenzhen Connect represents a significantly increased penetration of China and Hong Kong listed companies



MSCI China A Shares Inclusion

MSCI announced on 20 June 2017 that it will include **222 China A Large Cap shares** in the MSCI Emerging Markets Index





Roadmap of Future China A Shares Inclusion

- Potential increase of the currently announced 5% Inclusion Factor
- Potential addition of China A Mid Cap shares
- Subject to:
 - > Greater alignment of the China A shares market with international market accessibility standards
 - > The resilience of Stock Connect
 - > The relaxation of daily trading limits
 - Continued progress on trading suspensions
 - > Further loosening of restrictions on the creation of index-linked investment vehicles

> 5% inclusion at the Aug 2018 quarterly index review

MSCI may revise the planned implementation to a single phase should the daily limit be abolished or significantly expanded before the scheduled inclusion dates



Source: MSCI as of 21 June 2017

As of 31 May 2017

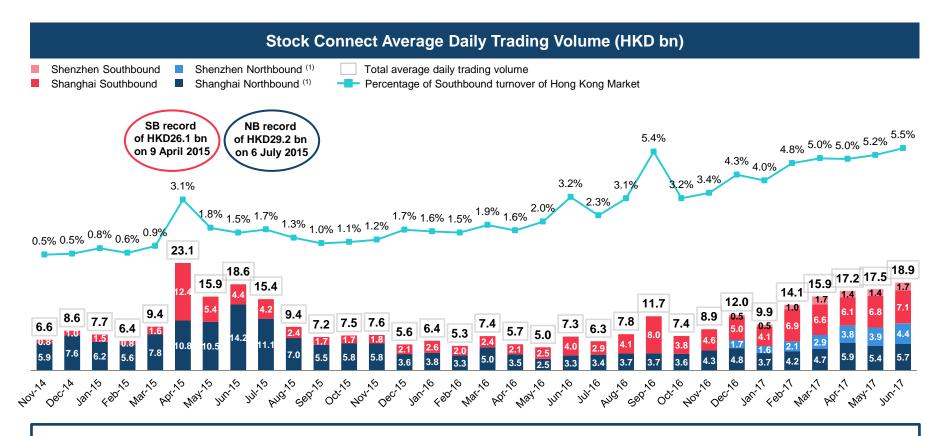
(3) Including H-shares(HK), Red Chip(HK), P Chip(HK) and B-shares(Mainland) and Overseas

0.73%

12.07%

Stock Connect – Trading Trends

Stock Connect contributed \$75m in income in Q1 2017 and \$177m for 2016



- Northbound turnover exceeded Southbound at the initial stage
- Southbound turnover picked up after the announcement of Shenzhen-Hong Kong Stock Connect⁽²⁾ and the approval of onshore insurance funds to trade through Shanghai-Hong Kong Stock Connect⁽³⁾

Aggregate quota removed since 16 August 2016; Shenzhen Connect launched on 5 December 2016



⁽²⁾ CSRC and SFC jointly announced the approval of Shenzhen-Hong Kong Stock Connect on 16 August 2016

Northbound Stock Connect – Top 10 Traded Stocks

106.9

2.1%

Shanghai – Hong Kong Stock Connect

Rank	Stock Name	ADT RMB Million	%
1	Ping An Insurance*	358.3	7.2%
2	Kweichow Moutai	301.4	6.1%
3	Jiangsu Hengrui Medicine	144.0	2.9%
4	China Merchants Bank*	143.0	2.9%
5	SAIC Motor	136.7	2.7%
6	Inner Mongolia Yili Industrial	133.7	2.7%
7	Founder Securities	131.9	2.6%
8	CITIC Securities*	112.4	2.3%
9	Anhui Conch Cement*	107.3	2.2%

Shenzhen – Hong Kong Stock Connect

Rank	Stock Name	ADT RMB Million	%
1	Hangzhou Hikvision Digital Technology	614.5	16.0%
2	Midea Group	340.8	8.9%
3	Gree Electric Appliances	213.1	5.6%
4	Wuliangye Yibin	146.9	3.8%
5	BOE Technology	102.9	2.7%
6	Yunnan Baiyao	82.6	2.2%
7	Focus Media Information Technology	62.4	1.6%
8	Zhejiang Dahua Techonology	54.9	1.4%
9	Jiangsu Yanghe Brewery Joint- Stock	50.2	1.3%
10	Hangzhou Robam Appliances	48.0	1.3%



Industrial Bank

10

Southbound Stock Connect – Top 10 Traded Stocks

Shanghai – Hong Kong Stock Connect

Shenzhen – Hong Kong Stock Connect

Rank	Stock Name	ADT HKD Million	%
1	Tencent	566.0	7.9%
2	China Construction Bank*	454.4	6.4%
3	HSBC	429.4	6.0%
4	Geely Automobile Holdings	273.7	3.8%
5	Great Wall Motor*	242.8	3.4%
6	ICBC*	242.0	3.4%
7	Evergrande Real Estate	217.0	3.0%
8	Bank of China*	181.0	2.5%
9	China Merchants Bank*	174.7	2.5%
10	Ping An Insurance*	173.5	2.4%

Rank	Stock Name	ADT HKD Million	%
1	Tencent	149.0	8.9%
2	IGG ⁽¹⁾	78.4	4.7%
3	ZTE*	61.4	3.7%
4	Geely Automobile Holdings	51.3	3.1%
5	Great Wall Motor*	49.7	3.0%
6	Evergrande Real Estate	49.6	3.0%
7	China Vanke*	49.0	2.9%
8	Sunac China	35.3	2.1%
9	Tiange	29.1	1.7%
10	New China Life Insurance*	27.8	1.7%



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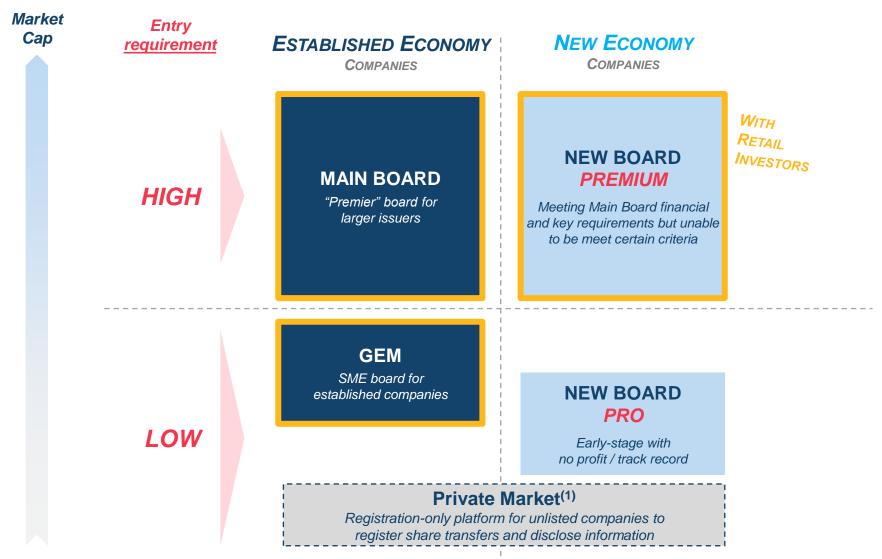
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Overview of Proposed Future Listing Structure / Framework





(1) Currently in planning stage

Proposed Enhancements to HK Listing Framework

New Board Concept Paper

Purpose

- Enhance access to listings in HK
- Diversify HK market
- Address needs of New Economy companies:
 - Pre-profit companies
 - Non-standard governance structures
 - Mainland Chinese companies who wish to secondarily list in HK

Proposal

	NB PRO NB PREMIUM		
Investor Eligibility	Professionals only	Professionals & Retail	
Financial Requirements	Market cap >\$200mil Profit & track record not required	Same as Main Board	
Equivalent Investor Protection	No	Yes ⁽¹⁾	
Listing Adviser	Financial Adviser	Sponsor	
Listing Documents	Listing Document ⁽²⁾	Prospectus	
Listing Approval	Listing Department	Listing Committee	
Fast-track Delisting	After 90 calendar days of suspension	After 6 months of suspension	
Common Features	Require IOSCO MMOU Listing Committee oversight WVRs permitted Mainland Chinese companies secondarily listings		

GEM Reform Consultation

- Raise quality of GEM market
- Address market concerns:
 - Post-IPO volatility
 - "Shell" creation

	GEM	Main Board
Cash Flow	\$20mil → \$30mil	No change
Market Cap	\$100mil → \$150mil	\$200mil → \$500mil
Free Float Value	\$30mil → \$45mil	\$50mil → \$125mil
Streamlined Transfer to Main Board	Removed	N/A
Controlling Shareholders Post-IPO Lock up	1yr → 2yrs	1yr → 2yrs
Public Offering	Mandatory at least 10% of the total offer size	No change

This is a holistic review of the Hong Kong listing framework aimed at widening capital markets access by opening up to a more diverse range of issuers, improving the quality of SEHK's markets and enhancing Hong Kong's competitiveness as a global financial centre



²⁾ Contains all material information that would be required by a professional investor in order to make an investment decision

Market Feedback Process

KEY DATES



HKEX invites market views on the two proposals

Submission of Feedback	
By mail or hand delivery to	Hong Kong Exchanges and Clearing Limited 12/F, One International Finance Centre 1 Harbour View Street, Central, Hong Kong
By fax to	(852) 2524-0149
By e-mail to	response@hkex.com.hk

Please mark in the subject line: Re: New Board Concept Paper

Subject to responses, we will finalise detailed rules by early 2018



Our Strategic Goal

Stay COMPETITIVE

Stay RELEVANT

Enhance MARKET QUALITY

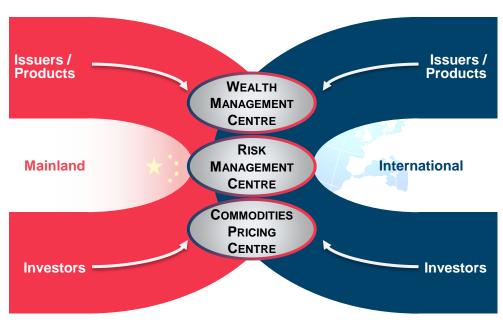


HKEX's Strategic Vision

What have we achieved so far?

- 1 Expanded our asset class reach
- Created mutual market access channels
- Enhanced market microstructure and efficiency
- Continued to build and upgrade systems and platforms

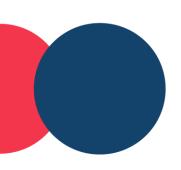
What is our long-term aspiration?



Need to bring:

- Mainland Investors
- International issuers
- Commodities capability
- Risk management / derivatives

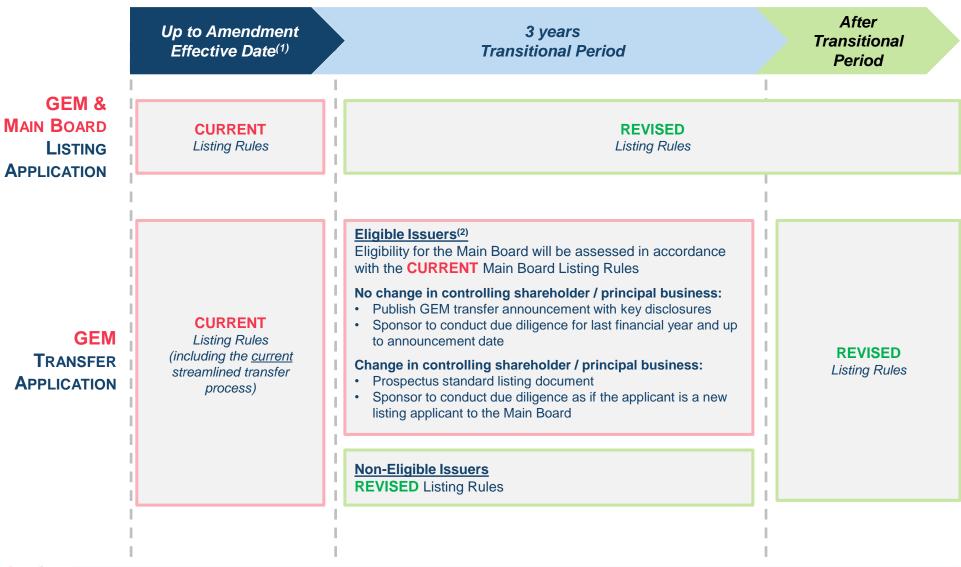




APPENDIX



Transitional Arrangements





⁽¹⁾ Amendment Effective Date is expected to be approximately **six months** after the date of the GEM consultation paper.

Eligible Issuers are companies listed on GEM on or before the date of the GEM consultation paper and GEM applicants who have submitted a valid listing application on or before the date of the GEM consultation paper