



**NEW BOARD CONCEPT PAPER
AND LATEST MARKET
DEVELOPMENT**

HKEX
香港交易所

AGENDA

1

Introduction

2

New Board Concept Paper

3

Summary

4

Market Update



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”)
- 2 New Board Concept Paper



- 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

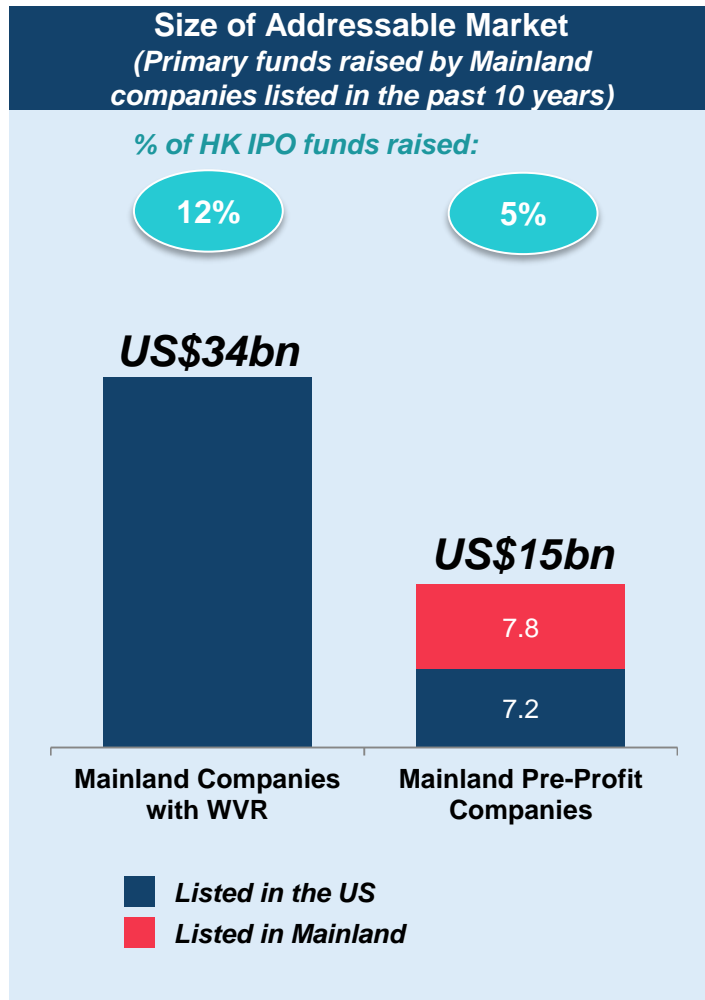
What do **INVESTORS** look for?

- 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



- ✓ Enhance Hong Kong's competitiveness as a global financial centre
- ✓ Attract high growth New Economy issuers
- ✓ Diversify Hong Kong's Market
- ✓ Develop Hong Kong's high tech ecosystem
- ✓ Generate additional tax revenues from trading
- ✓ Create job opportunities

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

AGENDA

1

Introduction

2

New Board Concept Paper

3

Summary

4

Market Update



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 ISSUERS

- Early-stage / pre-profit New Economy companies

INVESTOR ELIGIBILITY

- Professionals⁽¹⁾ only

ADMISSION FINANCIAL REQUIREMENTS

- No financial or track record requirements
- Minimum expected market cap of HK\$200mil

VETTING PROCESS

- Light touch

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



(1) As defined in the SFO or by the SFC (e.g. the \$8 million minimum portfolio threshold for individuals)

Admission Criteria and Listing Process

New Board *PRO*

New Board *PREMIUM*

	Listing Committee and SFC	
SUPERVISION	Listing Committee and SFC	
LISTING APPROVAL	Listing Department <i>Under delegation from Listing Committee</i>	Listing Committee
LISTING ADVISOR	Financial Advisers <i>Type 6 Licence Holders⁽¹⁾</i>	Sponsor
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
OVERSEAS ISSUERS	<ul style="list-style-type: none"> ▪ Must have IOSCO MMOU / SFC bilateral agreement ▪ No requirement for HK equivalent shareholder protection as required by the 2013 JPS ▪ Permits secondary listing of Mainland companies 	<ul style="list-style-type: none"> ▪ Must have IOSCO MMOU / SFC bilateral agreement ▪ Waivers for issuers already listed on a Recognised US Exchange from HK “equivalent” shareholder protection standards ▪ 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

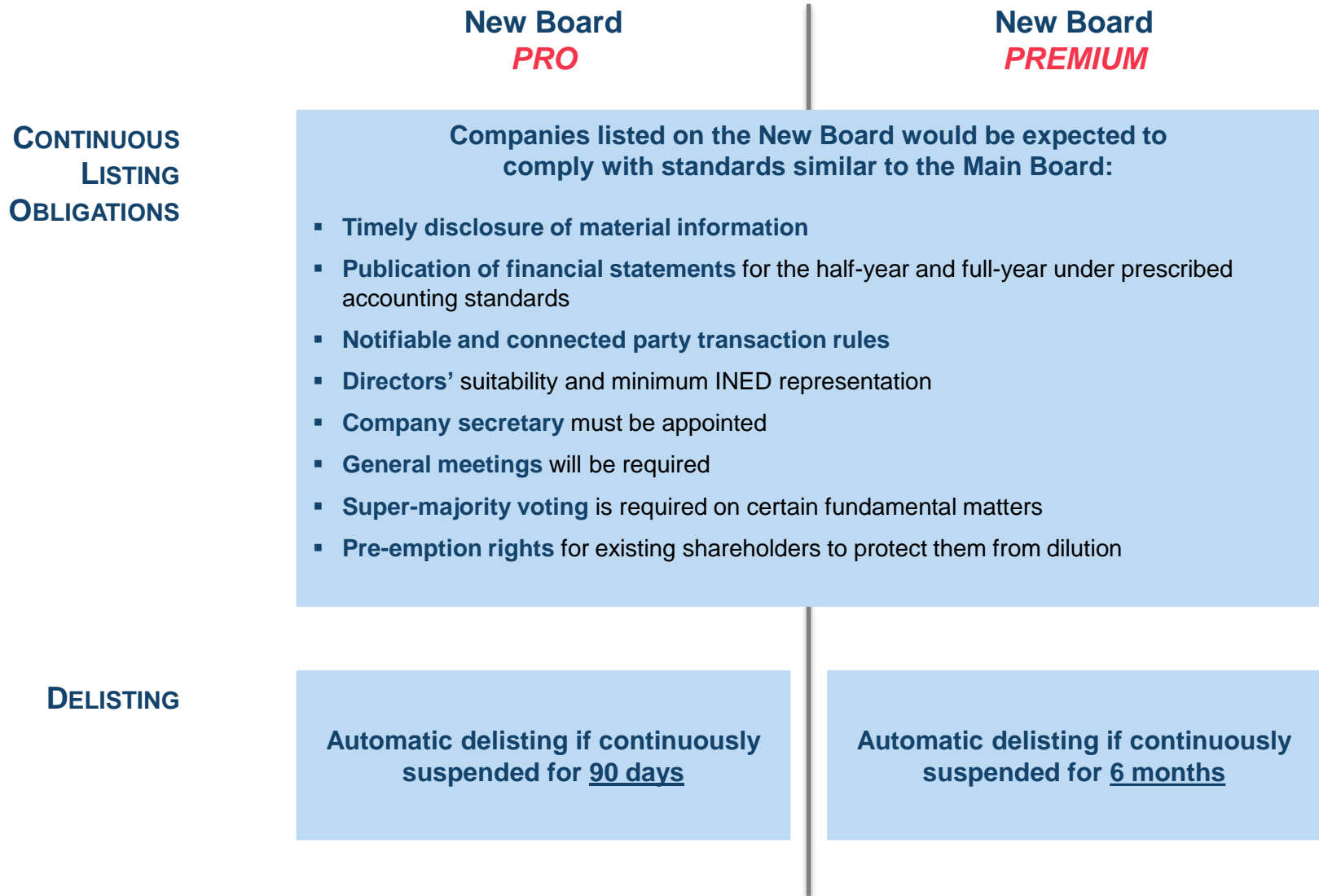


(1) Subject to market feedback and further consideration by the SFC

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

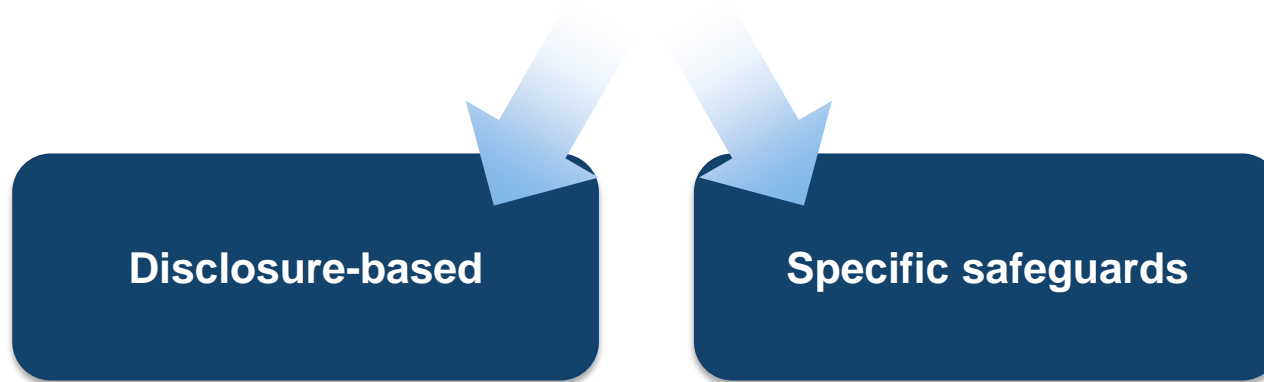
(3) A prospectus refers to a listing document that is required to be registered under Companies Ordinance because it involves an offer to the public

Continuous Listing Obligations and Delisting



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

AGENDA

1

Introduction

2

New Board Concept Paper

3

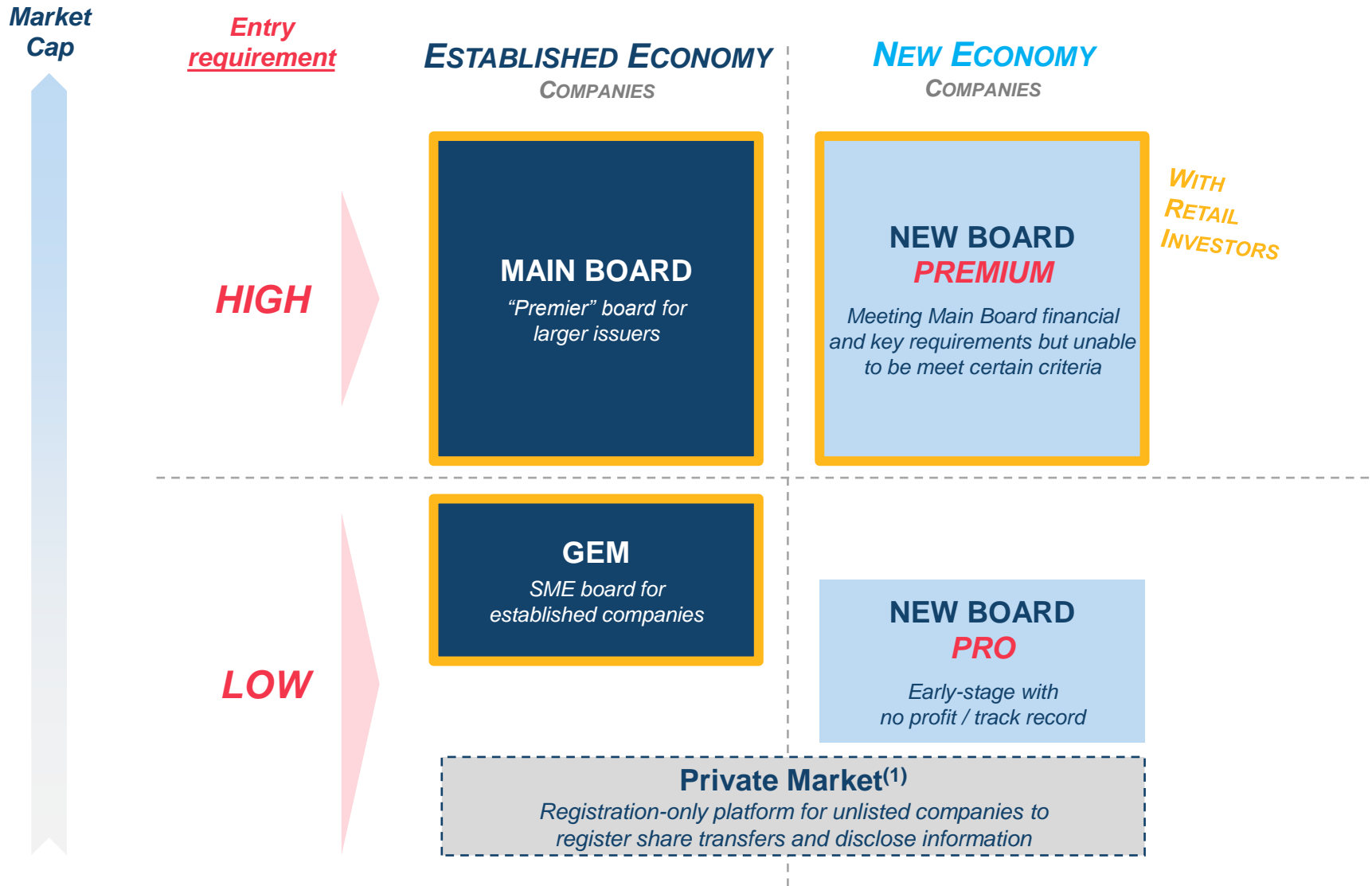
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4

Market Update



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 <i>Profit & track record not required</i>	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



(1) Companies listed on recognised US exchanges are exempted

(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



AGENDA

1

Introduction

2

New Board Concept Paper

3

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4

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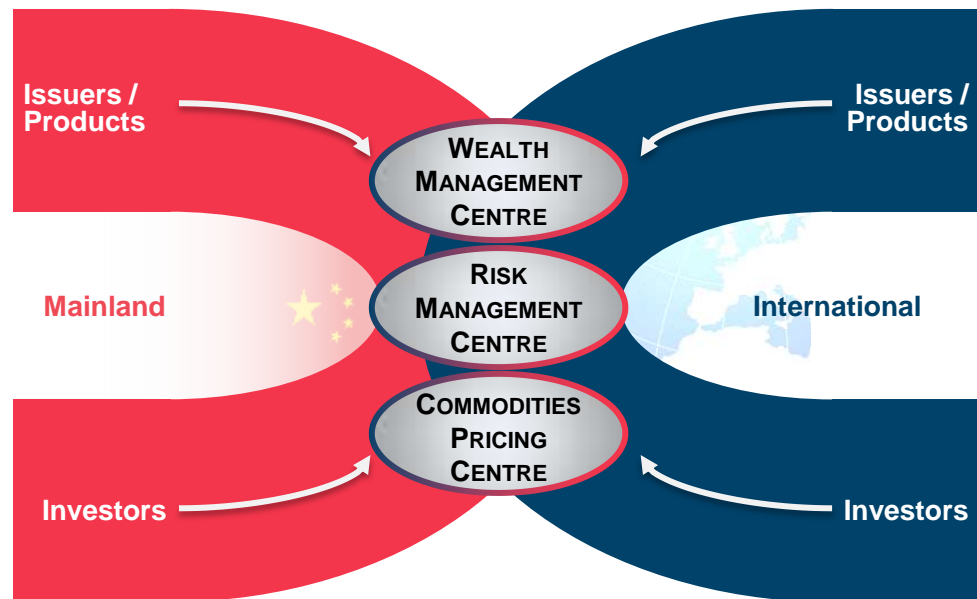


HKEX's Strategic Vision

What have we achieved so far?

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

What is our long-term aspiration?

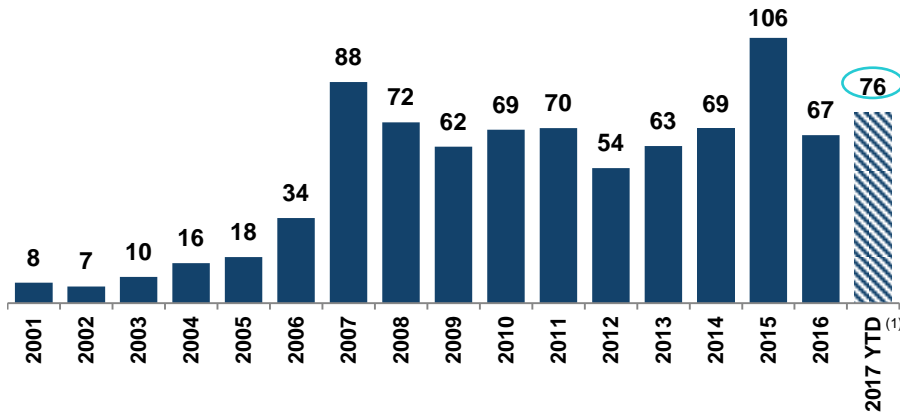


Need to bring:

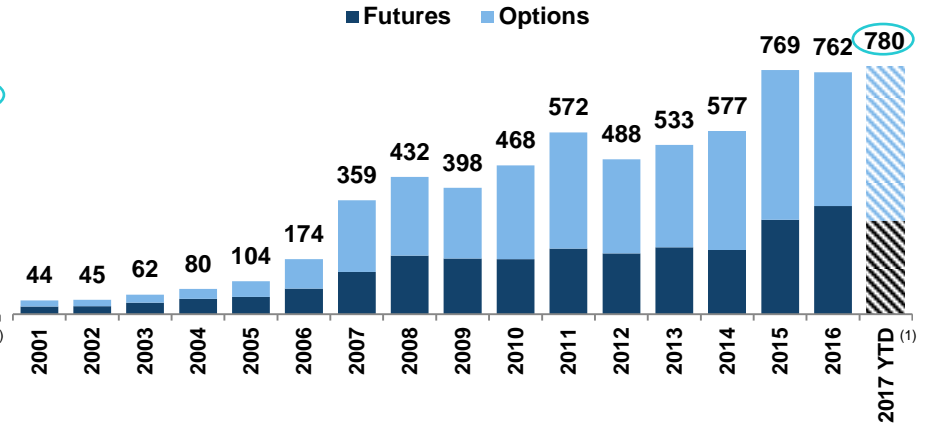
- Mainland Investors
- International issuers
- Commodities capability
- Risk management / derivatives

2017 Volume Picked up since February

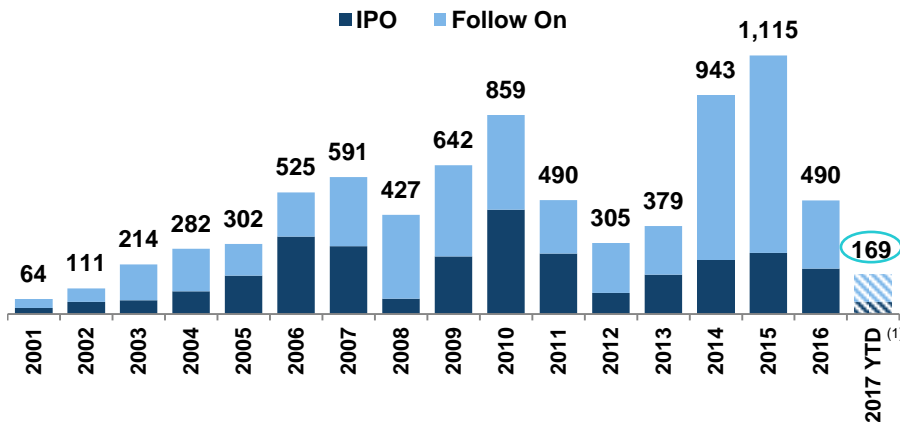
Securities ADT (HK\$ billion)



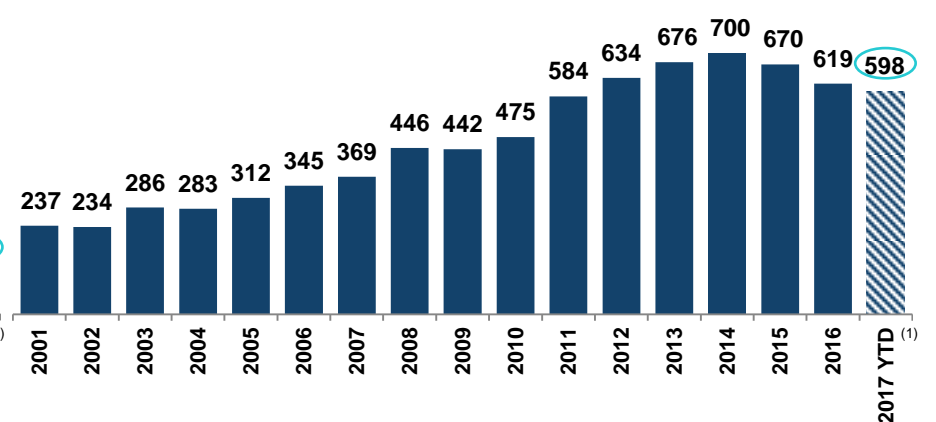
Derivatives ADV ('000 contracts)



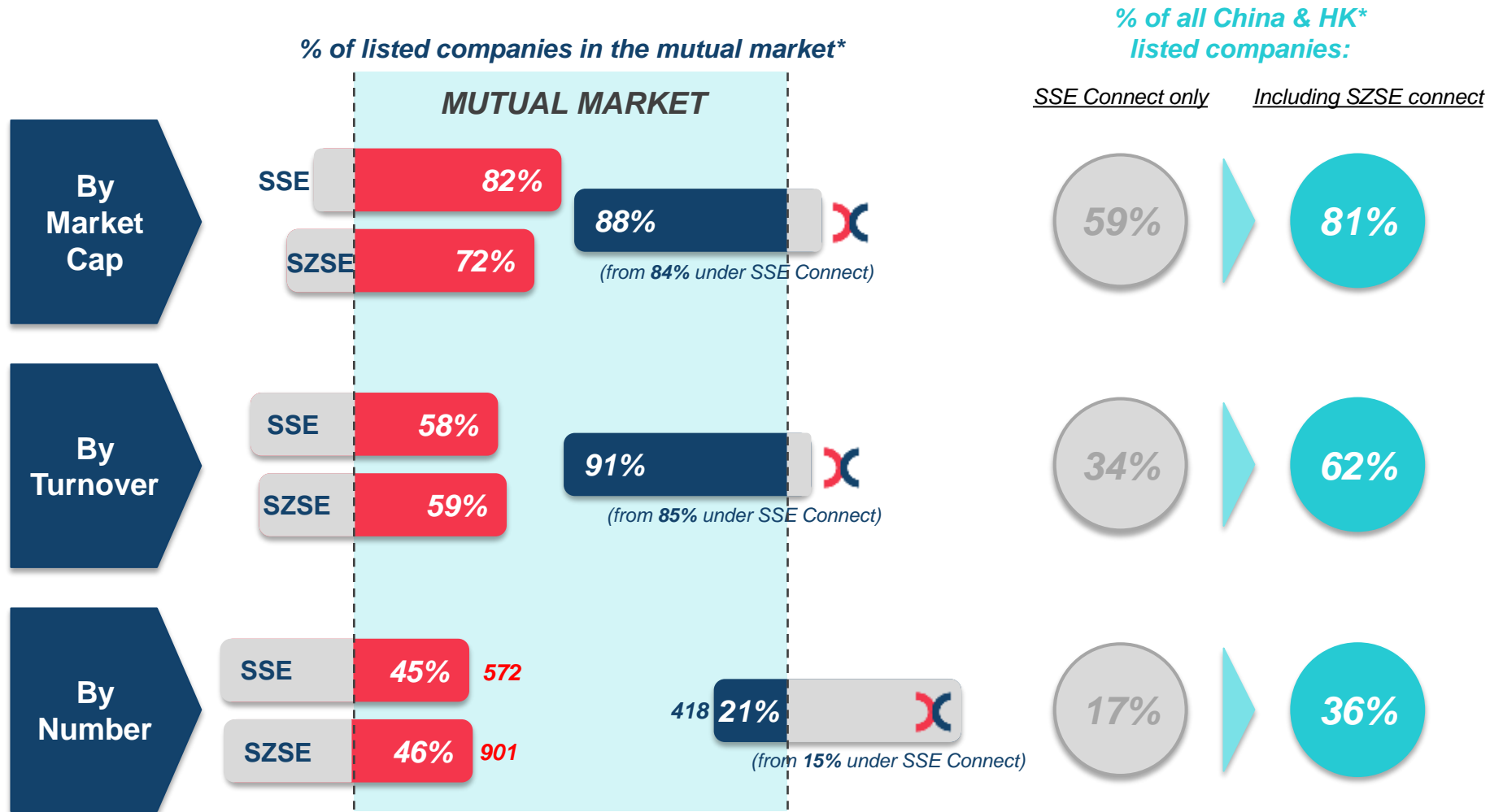
Total Funds Raised (HK\$ billion)



Commodities ADV ('000 lots)



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



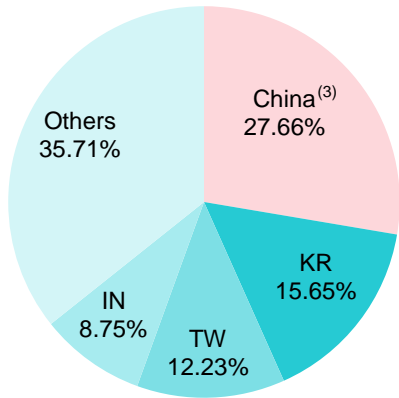
Data as of May 2017

* www.szse.cn, www.sse.com.cn, HK data based on HKEX Main Board only

MSCI China A Shares Inclusion

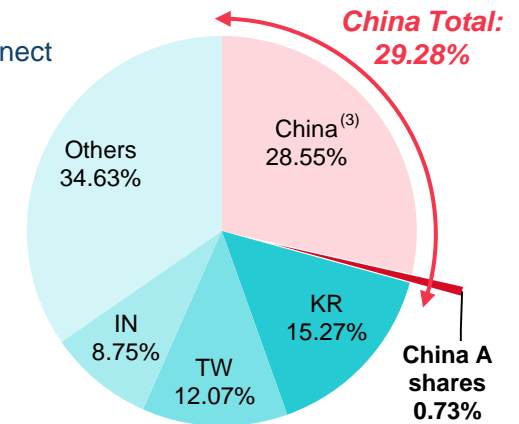
MSCI announced on 20 June 2017 that it will include **222 China A Large Cap shares** in the MSCI Emerging Markets Index

Today⁽¹⁾



August 2018: 5% Inclusion⁽²⁾

- Include only Large Cap shares accessible through Stock Connect
- Include A shares that have H shares listings
- Exclude:
 - Stocks suspended for >50 days in the past 12M
 - Stocks suspended at time of index reviews
- 2-step inclusion process of 5% inclusion
 - 2.5% inclusion at the May 2018 semi annual index review
 - 5% inclusion at the Aug 2018 quarterly index review



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

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

(1) As of 31 May 2017

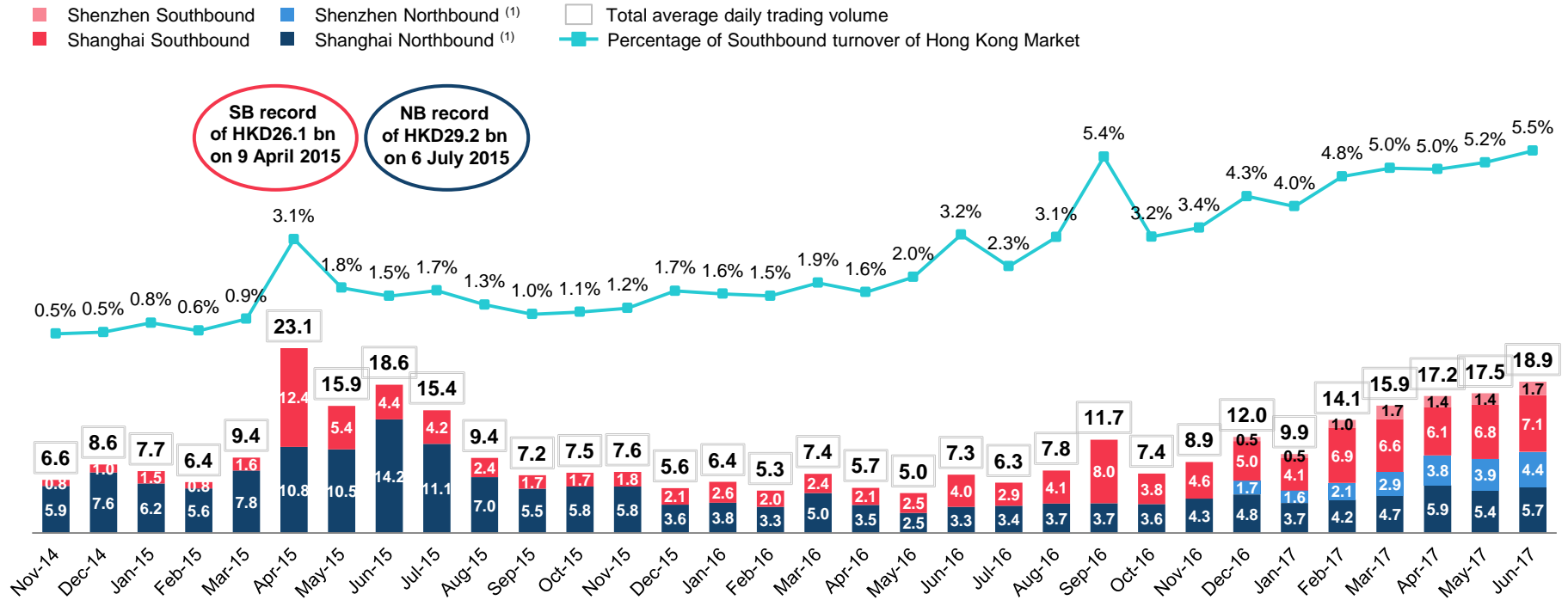
(2) The 5% inclusion factor will be applied to the free-float market cap of China A share in the MSCI China Index at the review date

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



Stock Connect – Trading Trends

Stock Connect Average Daily Trading Volume (HKD bn)



- 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

Source: HKEX data as of 30 Jun 2017

(1) Northbound trading is conducted in RMB; The NB figures in the chart are converted to HKD based on the month-end exchange rate

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

(3) China Insurance Regulatory Commission (CIRC) published the notice on 8 September 2016



Northbound Stock Connect – Top 10 Traded Stocks

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%
10	Industrial Bank	106.9	2.1%

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 Technology	54.9	1.4%
9	Jiangsu Yanghe Brewery Joint-Stock	50.2	1.3%
10	Hangzhou Robam Appliances	48.0	1.3%



Southbound Stock Connect – Top 10 Traded Stocks

Shanghai – Hong Kong Stock Connect				Shenzhen – Hong Kong Stock Connect			
Rank	Stock Name	ADT HKD Million	%	Rank	Stock Name	ADT HKD Million	%
1	Tencent	566.0	7.9%	1	Tencent	149.0	8.9%
2	China Construction Bank*	454.4	6.4%	2	IGG ⁽¹⁾	78.4	4.7%
3	HSBC	429.4	6.0%	3	ZTE*	61.4	3.7%
4	Geely Automobile Holdings	273.7	3.8%	4	Geely Automobile Holdings	51.3	3.1%
5	Great Wall Motor*	242.8	3.4%	5	Great Wall Motor*	49.7	3.0%
6	ICBC*	242.0	3.4%	6	Evergrande Real Estate	49.6	3.0%
7	Evergrande Real Estate	217.0	3.0%	7	China Vanke*	49.0	2.9%
8	Bank of China*	181.0	2.5%	8	Sunac China	35.3	2.1%
9	China Merchants Bank*	174.7	2.5%	9	Tiange	29.1	1.7%
10	Ping An Insurance*	173.5	2.4%	10	New China Life Insurance*	27.8	1.7%



Source: HKEX, from 1 June to 30 June 2017 (* A&H listed stocks)

(1) IGG was newly included in Hang Seng Composite SmallCap Index, effective on 6 Mar 2017