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### Replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2018-19

Director of Bureau : Secretary for Financial Services and the Treasury

Session No. : 4

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**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)01**

**(Question Serial No. S0023)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (2) Subvention: Financial Services Development Council

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

The Government indicates in Reply Serial No. FSTB(FS)060 that the proposed subvention to the Financial Services Development Council (FSDC) will be included in the annual Estimates of the Financial Services Branch for examination and approval by the Legislative Council.

The relevant control measures will be stipulated in the Memorandum of Administrative Arrangements (the Memorandum) as agreed between the Government and the FSDC. How to ensure that the strategic studies and policy advice of the FSDC are fully accountable? Will the Government reserve the power in the Memorandum to replace board members of the FSDC to ensure that the FSDC is held accountable for government subvention?

Asked by: Hon AU Nok-hin

Reply:

All members of the Board of Directors of the incorporated Financial Services Development Council (FSDC) will be appointed by the Government. The Secretary for Financial Services and the Treasury will serve as an ex-officio member of the Board. Apart from submission of annual work plans, budgets, annual reports and audited annual financial statements to the Government as stipulated in the Memorandum of Administrative Arrangements to be formulated, the incorporated FSDC will continue to submit annual work plans to the Legislative Council Panel on Financial Affairs to ensure transparency in its operation.

- End -

**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)02**

**(Question Serial No. S0024)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (2) Subvention: Financial Services Development Council

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to the Reply Serial No. FSTB(FS)023, the Financial Services and the Treasury Bureau said that the Financial Services Development Council (FSDC) will have regard to the background, experience and expertise of members to ensure a broad representation in composition. However, in its research report released in 2013, the FSDC advocated the development of Hong Kong as a capital formation centre for real estate investment trusts. The report has led to the relaxation of the Code on Real Estate Investment Trusts by the Securities and Futures Commission starting from August 2014 and the Link Real Estate Investment Trust (Link REIT) has been allowed to invest in vacant land. According to the "Hong Kong Connection" programme of the Radio Television Hong Kong, Mr George Hongchoy, being then a member of the Policy Research Committee of the FSDC, is actually the Chief Executive Officer of the Link REIT and enjoys direct benefits.

Since the incorporation of the FSDC as a company limited by guarantee, its members have to be appointed by the Chief Executive or under her delegated authority. How would the Government prevent the transfer of interests caused by the appointment system and avoid giving too much emphasis on the views of individual sectors?

Asked by: Hon AU Nok-hin

Reply:

Currently, members of the Financial Services Development Council (FSDC) are required to declare if there is potential conflict of interest on the topics under discussion. Such arrangement will continue to be in place in the FSDC upon its incorporation and will be reviewed from time to time as necessary.

The role of the FSDC is advisory in nature. It does not have power to formulate and implement financial policies. Upon receipt of FSDC's recommendations, the relevant policy bureaux and regulators would carefully study the feasibility and consider whether to

adopt the proposals and draw up the implementation plans. The role and functions of the FSDC will remain unchanged after its incorporation.

- End -

**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)03**

**(Question Serial No. S0025)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

This is a follow-up question on the Reply Serial No. FSTB(FS)062. Regarding the listing of enterprises with weighted voting rights structure and a market value at \$10 billion as well as the listing of pre-revenue biotechnology enterprises,

1. What are the criteria used for determining the \$10 billion benchmark?
2. How will the Government set the reference framework of valuation for biotechnology enterprises?
3. Pre-profit enterprises engaging in artificial intelligence or technological research and development have to raise funds before sufficient funds are secured for launching any research and development cycles. Why does the Government only allow the listing of pre-revenue biotechnology enterprises with weighted voting rights structure?

Asked by: Hon AU Nok-hin

Reply:

Our responses to the three parts of the question are as follows:

- (1) As companies with a weighted voting rights (WVR) structure potentially carry additional risks, the expected market capitalisation requirement proposed by the Stock Exchange of Hong Kong Limited (SEHK) seeks to set a high bar while allowing Hong Kong to attract the listings of the most important companies in the emerging and innovative sectors. The market capitalisation requirement of \$10 billion limits applicants permitted to list with WVR structures to established and high profile companies that would normally have received funding from third party investors in order to reach such size, and help ensure that the economic interest in the company held by WVR beneficiaries will be large enough, in dollar terms, to align their interest with those of other shareholders.

- (2) The valuation of biotech companies, like all companies, is a market driven process. In relation to pre-revenue biotech companies, it is expected that the valuation will be based on the market assessment of the company's research and development capabilities, its management as well as the potential market for its products. In this context, SEHK takes the view that the relevant regulatory approval regime in relation to the development of a biotech company's products provides a frame of reference to assist investors in the assessment of biotech companies.
- (3) Companies which do not meet any of the financial eligibility tests under the Main Board Listing Rules potentially carry additional risks. The activities of biotech companies tend to be strictly regulated under a relevant regime that sets external milestones on its development progress. The approval process provides investors with an indication as to the nature of the biotech company and a frame of reference with which to judge the stage of development of its products. SEHK's analysis of the US market also shows that biotech companies make up a majority of companies seeking a listing at an early stage of development and would not yet meet any of the financial eligibility tests of the Main Board.

- End -

**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)04**

**(Question Serial No. S0026)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (-) Not Specified

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

This is a follow-up question on Reply Serial No. FSTB(FS)033. The Financial Services and the Treasury Bureau stated that it is exploring with relevant Government departments to allow the public to pay government bills by scanning the barcodes on their bills through the e-wallets on their mobile phones.

On implementing the Faster Payment System (FPS), will the Government create a new platform or integrate the existing payment platforms such as the PPS for payment of government bills?

Asked by: Hon AU Nok-hin

Reply:

Currently the public can settle Government bills via a number of electronic channels including online banking, credit card, EPS and PPS. To facilitate the development of the Stored Value Facility (SVF) market, the Financial Services and the Treasury Bureau is exploring with relevant Government departments to allow the public to pay government bills using E-wallets offered by SVF operators.

Regarding the Faster Payment System (FPS), it is a piece of financial infrastructure that provides full connectivity between banks and SVF operators. It would not affect the current payment channels that the public can use to settle Government bills.

- End -

**CONTROLLING OFFICER'S REPLY****S-FSTB(FS)05****(Question Serial No. S0027)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY Wong)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

This is a follow-up question on Reply Serial No. FSTB(FS)042. Please advise this Council of the following:

- 1) In respect of the enterprises listed in Hong Kong as at end 2017, please tabulate by sector (i) their number, (ii) their market capitalisation, (iii) the percentage share of Chinese enterprises in terms of number and (iv) the percentage share of Chinese enterprises in terms of market capitalisation.

	Total number of listed enterprises	Total market capitalisation	Percentage share of Chinese enterprises in terms of number	Percentage share of Chinese enterprises in terms of market capitalisation
(Sector)				
...				
Total				

- 2) Please provide by sector and by year (i) the number and (ii) the market capitalisation of enterprises (including Chinese and non-Chinese enterprises) listed between 2013 and 2017.

	2013 i, ii	2014 i, ii	2015 i, ii	2016 i, ii	2017 i, ii
(Sector)					
...					
Total					

Asked by: Hon AU Nok-hin



Reply:

According to the Hong Kong Exchanges and Clearing Limited (HKEX), as at end 2017, 2 119 companies were listed in Hong Kong. The number and market capitalisation of these enterprises by sector, as well as the percentage share of Chinese enterprises, are at **Annex A**. The figures relating to enterprises listed in Hong Kong over the past five years are at **Annex B**.

- End -

**Number and Market Capitalisation (“MC”) of Enterprises Listed in Hong Kong and  
Percentage Share of Chinese Enterprises (as at end 2017)**

<b>Sector</b>	<b>Total Number</b>	<b>Percentage Share of Chinese Enterprises</b>	<b>MC (million dollars)</b>	<b>Percentage Share of Chinese Enterprises</b>
Utilities	68	72.1	1,657,665	44.3
Materials	142	59.2	1,299,644	40.3
Properties & Construction	367	41.4	5,154,438	55.8
Industrials	251	57.0	1,464,089	73.1
Consumer Goods	493	49.3	4,027,623	68.4
Consumer Services	278	29.1	2,328,928	23.3
Conglomerates	21	42.9	1,100,227	47.5
Energy	78	50.0	1,141,278	92.9
Information Technology	201	45.3	4,968,188	92.5
Financials	201	44.8	10,423,088	53.9
Telecommunications	19	42.1	2,179,957	92.5
<b>Total</b>	<b>2 119</b>	<b>46.7</b>	<b>35,745,124</b>	<b>62.4</b>

Source: HKEX

Note: The figures about market capitalisation by sector do not add up to the total due to rounding.

**Annual Number and Market Capitalisation (“MC”) of Enterprises Listed in Hong Kong (2013 to 2017)**

Industry	2013		2014		2015		2016		2017	
	Number	MC (million dollars)	Number	MC (million dollars)	Number	MC (million dollars)	Number	MC (million dollars)	Number	MC (million dollars)
Utilities	3	27,572	8	110,558	4	7,700	2	14,585	4	17,367
Materials	4	8,797	6	49,755	6	8,766	3	4,368	2	1,784
Properties & Construction	15	86,385	20	130,655	23	303,445	29	85,872	48	193,078
Industrials	12	86,927	9	15,380	11	24,632	16	11,181	22	14,794
Consumer Goods	31	125,769	34	271,301	35	236,362	20	137,245	30	98,414
Consumer Services	11	50,403	15	74,602	16	23,127	23	69,546	33	72,558
Conglomerates	-	-	-	-	1	14,068	1	631	-	-
Energy	2	11,475	1	2,002	1	3,770	1	7,855	3	1,312
Information Technology	9	11,276	15	62,111	11	29,169	15	61,133	14	155,674
Financials	10	133,522	6	22,505	17	242,410	15	164,202	17	136,686
Telecommunications	-	-	1	885	1	9,936	-	-	1	1,292
<b>Total</b>	<b>97</b>	<b>542,126</b>	<b>115</b>	<b>739,754</b>	<b>126</b>	<b>903,385</b>	<b>125</b>	<b>556,617</b>	<b>174</b>	<b>692,960</b>

Source : HKEX

Note: The figures about market capitalisation by sector for certain years do not add up to the total due to rounding.

**CONTROLLING OFFICER'S REPLY****S-FSTB(FS)06****(Question Serial No. S0028)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

Further to Reply Serial No. FSTB(FS)042, please inform this Committee of the following:

- 1) How many listed Mainland enterprises were delisted in each of the past 5 years? Please provide the name of such enterprises, the year they were delisted and the share price when delisted with the table below.

Year	Name of delisted enterprises	Share price when delisted

- 2) Please provide the details regarding Mainland enterprises that have been investigated by the Hong Kong Monetary Authority (HKMA) and the Independent Commission Against Corruption (ICAC) since the unification with the table below.

## Mainland enterprises investigated by the HKMA

Year	Name of Mainland enterprises	Reason for investigation	Result of investigation

## Mainland enterprises investigated by the ICAC

Year	Name of Mainland enterprises	Reason for investigation	Result of investigation

Asked by: Hon AU Nok-hin

Reply:

Our responses to the two parts of the question are as follows.

- (1) According to the Hong Kong Exchanges and Clearing Limited, the information relating to Mainland Enterprises delisted over the past five years is as follows:

<b>Year</b>	<b>Name of delisted enterprises</b>	<b>Share price when delisted (\$)</b>
2013	Mudan Automobile Shares Co. Ltd. - H Shares	0.345
2013	Zhejiang Glass Co. Ltd. - H Shares	2.48
2014	Great Wall Technology Co. Ltd. - H Shares	3.18
2015	Hunan Nonferrous Metals Corporation Ltd. - H Shares	4.18
2015	China CNR Corporation Ltd. - H Shares	15.86
2015	Sanmenxia Tianyuan Aluminum Co. Ltd. - H Shares	0.04
2015	Jingwei Textile Machinery Co. Ltd. - H Shares	11.98
2016	Wumart Stores, Inc. - H Shares	6.2
2016	China Metal Recycling (Holdings) Ltd.	9.43
2016	Dongpeng Holdings Co. Ltd.	4.46
2016	Dalian Wanda Commercial Properties Co., Ltd. - H Shares	52.5
2016	TCL Communication Technology Holdings Ltd.	7.47
2016	Anhui Tianda Oil Pipe Co. Ltd. - H Shares	1.66
2017	China Forestry Holdings Co., Ltd.	2.925
2017	Chinalco Mining Corporation International	1.38
2017	Jilin Qifeng Chemical Fiber Co., Ltd. - H Shares	1.09
2017	Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. - H Shares	16.96
2017	Yingde Gases Group Co. Ltd.	6.01
2017	Dejin Resources Group Co. Ltd.	0.215
2017	Bloomage BioTechnology Corporation Ltd.	16.24

- (2) According to the Hong Kong Monetary Authority (HKMA), as the banking supervisor, the HKMA expects banks to comply with the applicable legal and regulatory requirements. The HKMA will take appropriate follow-up actions, including opening an investigation, on cases where issues of supervisory or disciplinary concern are identified. In the course of an investigation, the HKMA's focus is whether there is sufficient evidence to support the allegations. Banks are treated equally regardless of whether they are local or foreign banks. Due to the official secrecy provisions under the Banking Ordinance, the HKMA is unable to disclose details of its supervisory and investigation work.

According to the Independent Commission Against Corruption (ICAC), it has not categorised the corporations under its investigation by their sources of funds, and no such statistics have been maintained. Moreover, the ICAC cannot disclose the names of the corporations under its investigation due to the rule and principle of confidentiality.

- End -

**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)07**

**(Question Serial No. S0030)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (2) Subvention: Financial Services Development Council

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

This is a follow-up question on Reply Serial No. FSTB(FS)023. The Government plans to incorporate the Financial Services Development Council as a company limited by guarantee. Please advise this Committee on whether there were any organisations being set up by the Government but later incorporated as companies limited by guarantee and recurrently subvented with public money in public administration history. If so, please also advise on how the functions of these companies were monitored by the Government and the performance of these companies after incorporation.

Asked by: Hon AU Nok-hin

Reply:

When reviewing the institutional set-up of the Financial Services Development Council (FSDC), we have duly considered various corporate structures, including in the form of a statutory body and other corporate models. We consider that incorporating the FSDC as a company limited by guarantee and funding its operation is the most appropriate and viable way to enhance its operational efficiency and flexibility.

The Financial Services and the Treasury Bureau does not have information on companies limited by guarantee set up by the Government and receiving recurrent subvention.

- End -

**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)08**

**(Question Serial No. SV007)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (000) Operational Expenses

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

This is a follow-up question on Reply Serial No. FSTB(FS)034.

Please provide a reply to part (c) of the above question and the number of sukuk issuers with Hong Kong as the place of issuance.

Asked by: Hon LEUNG Kenneth

Reply:

As stated in Reply Serial No. FSTB(FS)034, three sukuks were issued under the Government Bond Programme in 2014, 2015 and 2017 respectively. The three issuances were well received by investors. Sukuks are mainly issued and traded over-the-counter. We do not have the relevant statistics on the number of sukuk issuers with Hong Kong as the place of issuance.

- End -

**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)09**

**(Question Serial No. SV006)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (2) Subvention: Financial Services Development Council

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

This is a follow-up question on Reply Serial No. FSTB(FS)005.

What is the expenditure on promotional/public education activities regarding initial coin offerings (ICOs)?

Asked by: Hon MOK Charles Peter

Reply:

The Financial Services and the Treasury Bureau and the Investor Education Centre jointly launched a public education campaign on the risks associated with initial coin offerings (ICOs) and cryptocurrencies. The production cost of the promotional and educational videos is about \$800,000. Together with the publicity costs of different media channels (such as online platforms, social media, printed media and advertisements on public transport), the total estimated expenditure is \$2 million.

- End -



**CONTROLLING OFFICER'S REPLY**

**S-FSTB(FS)10**

**(Question Serial No. SV008)**

Head: (148) Government Secretariat: Financial Services and the Treasury Bureau (Financial Services Branch)

Subhead (No. & title): (-) Not Specified

Programme: (1) Financial Services

Controlling Officer: Permanent Secretary for Financial Services and the Treasury (Financial Services) (Andrew HY WONG)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

This is a follow-up question on Reply Serial No. FSTB(FS)053.

The Securities and Futures Commission received about 79 complaints involving alleged unauthorised collective investment schemes (CIS), of which about 47 involved real estate projects. Please provide a breakdown by CIS/non-CIS and authorised/unauthorised CIS among these 47 complaints.

Asked by: Hon TO Kun-sun, James

Reply:

Upon receiving complaints about alleged unauthorised collective investment schemes (CIS), the Securities and Futures Commission (SFC) will assess each complaint according to its established procedures, conduct investigation where there is a basis to reasonably suspect a contravention, and take appropriate follow-up action when necessary. The SFC will continue to monitor the sale of CIS investment products. In relation to the 47 complaints mentioned in the question, current information shows that there are around 14 complaints that may involve CIS being processed.

- End -