

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017062.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with the proposal to re-position GEM as a stand-alone board and hence remove the GEM Streamlined Process for GEM Transfers and re-introduce the requirements to (a) appoint a sponsor to conduct due diligence for GEM Transfers; and (b) publish a “prospectus-standard” listing document such that GEM Transfer applications are treated as a new listing application (without requiring the applicant to conduct an offering)?

☐ Yes

☒ No

Please give reasons for your views.

Concerns regarding the stepping-stone mechanism being exploited by GEM-listed shells would be better dealt with by imposing restrictions on the transfer of GEM issuers which have experienced a change in their primary business or a change in control within a specified period prior to transfer. Transfers should be permitted provided that all Main Board listing criteria are satisfied.

If the proposal to remove the Streamlined Process for GEM Transfers is to be adopted, the Group would urge HKEx to extend the proposed transitional period beyond the 3 years currently proposed. The Consultation Paper notes that the GEM Transfer Applicants reviewed were listed on GEM for an average of 5.4 years before they transferred to the Main Board (at paragraph 18). This suggests that it took over 5 years for these GEM issuers to meet the Main Board listing criteria. Given that the Consultation Paper proposes to raise the Main Board entry requirements, it is likely that GEM issuers will require an even longer period to satisfy the Main Board requirements in future and that the proposed 3-year transitional period will be insufficient.

2. Do you agree with the proposal to require all GEM Transfer applicants to have (a) published and distributed at least two full financial years of financial statements after their GEM listings; and (b) not been subject to any disciplinary investigations by the Exchange in relation to a serious breach or potentially serious breach of any Listing Rules for 24 months before they can be considered for a GEM Transfer?

☒ Yes

☐ No

Please give reasons for your views.

The Group considers that these proposals should deal satisfactorily with concerns relating to listed shells and act to ensure the integrity of the market.

3. Do you agree with the proposal to retain the current track record requirement under the GEM Listing Rules (i.e. two financial years)?

☒ Yes

☐ No

Please give reasons for your views.

The Group supports the retention of the current track record period provided that the New Board proposed by the New Board Concept Paper will provide a listing venue for companies with no, or a shorter, track record period. Otherwise, the Group advocates shortening the track record requirement for GEM in order to attract listings of growth companies.

4. Do you agree with the proposal to retain the current practice of not requiring a GEM applicant that can meet the Main Board admission requirements to list on the Main Board instead of GEM?

☒ Yes

☐ No

Please give reasons for your views.

There will often be justifiable reasons for a company to list on GEM despite meeting the Main Board requirements. In "borderline" cases, companies will often apply to GEM in order to have greater certainty that they will achieve listing. Given that the ongoing obligations of GEM issuers are equally as stringent as those of Main Board issuers, and are more stringent with regard to quarterly financial reporting, the Group does not see any major investor protection concerns in allowing an applicant to list on GEM notwithstanding that it meets the Main Board criteria. Indeed, in some ways this should be encouraged to increase the diversity and quality of GEM listings, and hence improve the standing of the GEM market in investors' minds. Given the proposed amendments to the GEM disclaimer set out in GEM Rule 2.20 (at paragraph 18 of the Consultation Paper), the listing of such companies on GEM should not be problematic.

5. Do you agree with the proposal to increase the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million?

☐ Yes

☒ No

Please give reasons for your views. We invite suggestions on other potential quantitative tests for admission to GEM.

The Group questions the logic of increasing the minimum Cashflow Requirement to HK\$30 million given that many good quality GEM applicants struggle to generate surplus cash – hence their approach to Capital Markets. Moreover, since only marginally meeting the listing eligibility requirements will call into question an applicant's suitability for listing according to HKEX Guidance Letter 68-13A, the existing requirement is already for Cashflow in excess of HK\$20 million in practice. The effect of that Guidance Letter would likewise raise the practical requirement beyond the proposed HK\$30 million. It is vitally important that steps are taken now to revitalise Hong Kong's securities market to ensure that SEHK remains globally competitive and to provide capital raising opportunities for smaller growth companies.

6. Do you agree with the proposal to increase the minimum market capitalisation requirement at listing from HK\$100 million to HK\$150 million?

☒ Yes

☐ No

Please give reasons for your views.

The Group supports the proposed increase subject to the establishment of a New Board with lower entry criteria.

7. Do you agree with the proposal to increase the post-IPO lock-up requirement such that controlling shareholders of GEM issuers:

(a) cannot dispose of any of their equity interest in a GEM issuer within the first year of listing; and

(b) cannot dispose of any interest in the subsequent year that would result in them no longer being a controlling shareholder as defined under GEM Listing Rule 1.01?

☒ Yes

☐ No

Please give reasons for your views.

The proposed increase would demonstrate commitment on the part of controlling shareholders which would be indicative of the genuineness of the listing and counter concerns relating to shell manufacture. This should in turn boost the market's reputation for integrity and market confidence.

8. Do you agree with the proposal to introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs?

☐ Yes

☒ No

Please give reasons for your views.

While the Group appreciates the concerns regarding lack of liquidity, satisfaction of the requirements as to shareholder concentration should be sufficient without imposing a mandatory public offer requirement. Clearer guidance on SEHK's concentration requirements, in particular written guidance on the increasingly common requirement that the top 25 shareholders hold no more than 90% of the shares, would be welcomed. The main objection to a mandatory public offer tranche is that it substantially increases costs due to printing and receiving bankers' costs. Consequently, if a mandatory public offering requirement is introduced, it should be at a higher level, say 50%. A 10% level would only involve HK\$3 million worth of shares (based on the HK\$30 million market capitalisation), which is not worth the trouble.

9. Do you agree with the proposals to align the GEM Listing Rules on:

- (a) placing to core connected persons, connected clients and existing shareholders, and their respective close associates with those under Appendix 6 to the Main Board Listing Rules and Guidance Letter HKEX-GL85-16 "*Placing to connected clients, and existing shareholders or their close associates, under the Rules*"; and

☒ Yes

☐ No

Please give reasons for your views.

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- (b) the allocation of offer shares between the public and placing tranches and the clawback mechanism with those in Practice Note 18 to the Main Board Listing Rules?

☒ Yes

☐ No

Please give reasons for your views.

Although the Group opposes the proposed mandatory public offer mechanism for the reasons given in response to Question 8 above, if this proposal is adopted, there is no objection to the proposed allocation and clawback mechanism.

10. Do you agree with the proposal to increase the minimum public float value of securities from HK\$30 million to HK\$45 million?

☒ Yes

☐ No

Please give reasons for your views.

The proposed increase is supported provided that the proposals for a New Board offering lower entry criteria are adopted.

11. Do you agree with using the Profit Requirement to determine eligibility to list on the Main Board?

☒ Yes

☐ No

If not, what alternative test should be used? Please give reasons for your views.

12. If you agree to retain the Profit Requirement, do you agree that the current level of profit under the Profit Requirement should remain unchanged?

☒ Yes

☐ No

Please give reasons for your views.

13. Do you agree with the proposal to increase the minimum market capitalisation requirement at listing for Main Board applicants from at least HK\$200 million to at least HK\$500 million?

☐ Yes

☒ No

Please give reasons for your views.

Market capitalisation is subject to market conditions. A minimum market capitalisation of HK\$500 million could preclude many companies from listing during a poor market. It is therefore suggested that the market capitalisation requirement should be raised to no more than HK\$300 million.

14. Do you agree with the proposal to proportionately increase the minimum public float value of securities for Main Board applicants from HK\$50 million to HK\$125 million?

☐ Yes

☒ No

Please give reasons for your views.

In view of the response to Question 13 above, HK\$75 million should be the maximum public float value required.



15. Do you agree with the proposal to increase the post-IPO lock-up requirement such that the controlling shareholders of Main Board issuers:

- (a) cannot dispose of any of their equity interest in a Main Board issuer within the first year of listing; and
- (b) cannot dispose of any interest in the subsequent year that would result in them no longer being a controlling shareholder as defined under Main Board Listing Rule 1.01?

☒ Yes

☐ No

Alternatively, do you believe that it is not appropriate to extend the post-IPO lock-up requirements for Main Board applicants, given that they are less likely to have the characteristics identified in the 2016 Suitability Guidance Letter because of their larger size and our proposal to raise the minimum market capitalisation requirement to HK\$500 million.

Please give reasons for your views.

Support for the extension of the lock-up period is given on the basis that the minimum market capitalisation requirement is not raised to HK\$500 million. However, if the proposed increase to HK\$500 million is adopted, a two-year lock-up on controlling shareholders would not be appropriate for the reasons stated above (i.e. applicants of that size would be less likely to have the characteristics specified in the 2016 Suitability Guidance Letter).

16. Do you agree that the proposals for the Main Board should be considered independently irrespective of the outcome of the proposals for GEM?

☐ Yes

☒ No

Please give reasons for your views.

A holistic approach needs to be adopted taking into account the needs of all listing applicants and stakeholders.

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