

## 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.

If the approach (a) appoint a sponsor to conduct due diligence for GEM Transfers (b) publish a "prospectus-standard" listing documents such that GEM Transfer applications are treated as new listing applications is adopted, many companies which are currently listed on the GEM Board, including companies with good future potentials such as those planning for New Economy Business, may not be able to meet the proposed requirement and be forced out of the GEM Board. Hence, adopting "treating as new applicant can cause great loss and detrimental to all their existing shareholders including minority shareholders as well, resulting in such proposed changes is unfair to existing shareholders of GEM Board Companies.

In addition, engaging sponsors and prospectus standard is expensive and add unnecessary cost burden to small GEM Board companies. This requirement put pressure to their Board of Directors and management who can otherwise devote time and energy to seek for ways to improve and turnaround their business, as their attention and limited resources, including financial and manpower, will be shifted to how to fulfill the new requirements of keeping the company listed on the GEM Board according to the new proposed rules.

Moreover, besides cost factor of engaging sponsors, there are about 260 GEM board companies and if all of them rush to look for sponsor's for keeping their listing status, the issue of whether there are enough sponsors to handle all GEM Board companies and within a short period ( sponsor will be slective and cost of sponsors will likely be even be higher with limited supply to handle sudden rise in demand )

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.

(a) Yes - The requirement that all GEM Transfer applicants to have published and distributed at least two full financial years of financial statements after their GEM listings is okay as in any event listed companies are required to publish their annual audited financial statements. in their annual report.

(b) No - The requirement that GEM Transfer applicants that it had 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 considered for a GEM Transfer.

For "serious breach of any Listing Rules for 24 months", this is okay when what constituted "seious breach of any Listing Rules" is objective, well defined and communicated well to all listed issuers, and together with fact that the Company's breach is already well proven beyond doubt.

However, for "POTENTIAL" serious breach of any Listing Rules, the penalty of "before they can be considered for a GEM Transfer" is unfair to GEM Board companies which are currently subject to any disciplinay investigation for a potential serious breach of any Listing Rules, because it violate the basic principle under our law in Hong Kong that "one is innocent unless proved guilty".

For GEM companies that are in the stage of disciplinary investigation - for a potential breach only - the GEM company involved is given time and chance to prepare for answers to the Stock Exchange of their alleged breach. However, if the proposed requirement becomes a "necessary prerequisite" BEFORE they can be considered for a GEM transfer. This is in effect to say that while the results is still pending under such investigation and still remain unknown, however under the prosposed rule, such GEM companies are already deprived of their GEM listing status soley because of "alleged breach".

This is certainly not justified because if this GEM company with alleged breach subsequently prove to Stock Exchange that the alleged breach had not took place, or taken place with justified reasons under particular circumstances, or other reasons, however, this GEM company was already barred from transfer to the GEM. The sole act of publicising in the market that this GEM company is unable to be transferred to GEM Board already hurted the reputation that this GEM company built over years and difficult to win back once they are categorised as not qualified for a GEM Transfer

This is analagous to judge giving a verdict before the trial and conclusion of a case, and violate the basic of principle of fair trial, a cornerstone in our Hong Kong legal system.



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.

Proposal to retain the current track record requirement under the GEM listing Rules for two financial years is okay as these are factors which shareholders consider to buy shares of the Company.

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.

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 should be maintained. Reason is decision should be a flexible business decision left open to the Board and management of the Company. For example, the Company may not wish to spend the legal and professional fees required for transferring to Main Board or they may not be able to find sponsors or legal firm and plan to select other timing for such transfer, or other reasons. If the Company thinks overall transfer to Main Board is advantageous to them, they will do such transfer on their own initiatives.

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.

No, the HK\$20 million Cashflow Requirement has been running well for many years, and the raising to HK\$30 million impose unnecessary financial pressure on potentially good new start up companies which may have difficulties in meeting the cashflow requirements at the start, and this change in rule may deter start up with good potential from admission to GEM, for example those in New Economy Business that Stock Exchange hopes to attract for listing, .

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.

No. Same reason as in 5 - this may deter start up companies with good potential, for example those in New Economy Business that Stock Exchange hopes to attract for listing, from admission to GEM, merely because they fail to fulfil the market capitalisation requirement after raising to HK\$150 million. Potential companies fulfilling all other requirement and market capitalization from HK100 million to HK\$150 million will be excluded from listing.

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.

Yes - if the Stock Exchange aim is to deter the buying and selling of "shell companies", there step should help to deter and add to the cost if purpose is to buy and sell "shell companies".

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.

Under the general rule of at least 25% public float for listed companies, and in view of the different nature of business and company size, , setting mandatory public offering mechanism for GEM IPOs to at least 10% of the total offer size should be okay

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.

The current GEM listing rules on connected transactions with detail disclosure requirement and approval from shareholders to be obtained from EGM as required are already in place for good supervision on GEM listed companies, hence there is no need to align the GEM Listing Rules on placing with rules applicable to Main Board.

- (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.

The current GEM listing rules on offer shares are good enough.

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 sudden imposition of increasing 50% public float value of securities, from HK\$30 million to HK\$45 million, will give unnecessary pressure to the companies planning for listing, because if these companies cannot find more shareholders they will be stopped from listing. The current minimum public float value of securities of HK\$30 million will give chance to new companies that fulfil this rule with existing entry barriers and all other listing requirements.

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.

For listing on Main Board, this should be a reasonable and well accepted requirement in practice over years.



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.

The profit requirement should remain unchanged because for listing, as this should be a reasonable and well accepted criteria by the market over years, and can attract eligible companies for listing.

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.

Raising the minimum market capitalisation requirement at listing to a 2.5 times requirement will only results in favoring large companies for listing, and rule out smaller profitable companies with good potential, but does not meet the raised market capitalisation requirement, from listing.

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.

Increasing public float will rule out companies that does not meet the raised market capitalisation, however with good potential, from listing on Main Board.



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.

Yes - if the Stock Exchange aim is to deterring the buying and selling of "shell companies", these steps should deter and add to the cost of buying and selling "shell companies"

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.

Main Board and GEM Board are targeting different market segments. Main Board companies are those that are in profit and meet all other current Main Board Listing requirements, while GEM are for companies that have not yet meet profit requirements.

Hence proposals for the Main Board should be considered on a standalone basis, irrespective of the outcome of the proposals for GEM.

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