

**CONSULTATION PAPER
ON REVIEW OF THE GROWTH ENTERPRISE MARKET (GEM)
AND CHANGES TO THE GEM AND MAIN BOARD LISTING RULES**

**RESPONSE PAPER FROM
ADDLESHAW GODDARD (HONG KONG) LLP
ON BEHALF OF
A GROUP OF FINANCIAL INSTITUTIONS AND PERSONS**

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INTRODUCTION

1. We are a group of financial institutions and persons listed in Appendix 1. In terms of the number of sponsors who have successful IPOs in 2017 up to 31 July 2017, we represented about 25% of the sponsor community.
2. We refer to the *Consultation Paper on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules* issued by SEHK in June 2017.
3. This Response Paper consists of executive summary, general response and specific response. The specific response is direct to the questions set out in the questionnaire on the Consultation Paper.
4. The definitions set out in the Consultation Paper should apply to this Response Paper unless otherwise stated.
5. As an overall submission, Hong Kong needs to be competitive to stay as a leading financial centre, and our submissions, are all intended to achieve a balanced approach between regulations and doing business which careful reading of our comments would bear out.

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EXECUTIVE SUMMARY

GEM: A success

1. We believe the success of GEM is mainly attributable to the fact that:
 - (a) GEM is a financing and listing platform for SMEs, which satisfy lower financial requirements and demonstrate a certain level of promise of growth;
 - (b) GEM does not differentiate specific industries for listing;
 - (c) GEM issuers have same quality as those of a Main Board issuer, as both GEM and Main Board issuers are subject to the same due diligence process, prospectus disclosure requirements, suitability assessment and enforcement regime; and
 - (d) GEM Streamlined Process makes it easier, as well as providing hope for GEM issuers to transfer to the Main Board if it could realize its promise of growth and satisfy the financial requirements for listing on Main Board.

GEM: Current purpose

2. The current purpose of GEM is to allow small to mid-sized companies to list under less stringent admission requirements and enable them to access the Hong Kong capital markets to develop their underlying businesses or assets, and subsequently transfer to the Main Board under the GEM Streamlined Process. Such purpose should be maintained.

GEM: Volatility in share price

3. The volatility issue is systemic, because the current GEM Listing Rules allows the share offer for GEM to go for a placing-only mechanism. It is an overstatement to argue that GEM issuers are ill-intentioned and thereby GEM should be overhauled.
4. Share offering will only take place after a listing application has passed the hearing and the listing applicant obtains an approval in principle from SEHK. By that time, it signifies that the regulators have no further question on the quality of the listing applicant to list. Hence, GEM stock price volatility has no relevance to the quality of GEM issuers.
5. The volatility issue could easily be solved by applying the Main Board's stringent open market requirement to GEM. Indeed, this issue has been tackled successfully by both SEHK and SFC since January 2017 by issuing and implementing the Guideline to Sponsors, Underwriters and Placing Agents involved in the Listing and Placing of GEM stocks.

GEM: Lower admission requirements

6. GEM's lower admission requirements do not mean that GEM issuers are of low quality. In fact, as larger size or higher admission requirements would result in higher IPO fund raised, there is more incentive for rogue listing applicants to cook the book or otherwise carry out irregularities. However, approaching the matter on the basis that a listing applicant has ulterior motive does not accord to the facts that such rogue listing applicants are in the minority and the rest of the market should not be penalised because of the optics that they create. Instead, a focus should be upon what is working well.
7. We note that a number of delisted Main Board issuers having very high market capitalisation upon listing have resulted in shareholders losing, or being locked up, part or possibly all of their investment. These delisted Main Board issuers have market capitalisation upon listing ranging from approximately HK\$2 billion to HK\$6 billion.
8. Please see Figures 1, 2 and 3 set out on pages 11 and 12 of this Response Paper. Based on the Prolonged Suspension Status Report for each of Main Board and GEM posted by SEHK on 1 August 2017, there are as many as 55 Main Board issuers being suspended due to various types of irregularities, while only 2 GEM issuers have been so suspended. And the overwhelming majority of the suspended Main Board issuers therein had market capitalisation of over HK\$500 million upon listing. This illustrates that higher admission requirements do not necessarily equate with quality, and that the argument that GEM issuers are of generally low quality is an unsupported statement.

GEM: Premium attached to listing status and potential shell companies

9. Given the liquidity of listed issuers, there would certainly be premium to listing status and potential shell companies. This does not only happen in GEM but also Main Board, and indeed all IPO venue around the world.
10. To argue that GEM should be overhauled based on the concern that there is premium attached to a listing status rather than to develop their business, and led to an increase in the number of potential shell companies listed on GEM, is an overstatement. It is a self-defeating point because the same concern would also be valid for Main Board and the proposed New Board.

GEM Streamlined Process

11. Currently, the due diligence process, prospectus disclosure requirements and enforcement regime for GEM and Main Board listings are the same. We do not agree that GEM Transfer applicants would be required to appoint a sponsor and issue a "prospectus standard" listing document. GEM Transfer applicants have already conducted all the aforementioned requirements and spent vast listing expenses when it is first listed on GEM. It is unfair for GEM issuers to go through the same IPO process and spend the same, if not more, listing expenses again to transfer to Main Board.

12. We do not agree with the assertion that the GEM Streamlined Process potentially affects the quality of the Main Board. GEM Transfer applicants have gone through comprehensive due diligence process as well as subject to the vetting and disclosure requirements same as, if not more than, those of Main Board when they applied for listing on GEM, and are required to satisfy the admission requirements of Main Board when they apply to transfer to Main Board.
13. To address the concern that some GEM Transfer applicants have changed their principal businesses after listing on GEM before they seek to transfer to Main Board, we suggest that, for GEM Streamlined Process to apply, there shall be no fundamental change in the principal business activities as described in the GEM prospectus as set out in Rule 14.89 of the Main Board Listing Rules since the GEM listing. While it may be right for GEM Transfer applicants to appoint a sponsor and issue a “prospectus standard” listing document where they have changed their principal businesses since GEM listing, it would be unduly burdensome to do so if their principal businesses remain the same as those described in the GEM prospectus.

GEM: Proposed increase of Cashflow Requirement and market capitalisation requirement

14. We do not agree with the proposed increase of Cashflow Requirement from HK\$20 million to HK\$30 million and the increase of the market capitalisation requirement from HK\$100 million to HK\$150 million for GEM.
15. We do not see how the proposed increase would have any relevance to the quality of GEM. As pointed out in paragraphs 6 to 8 on page 3 of this Response Paper, the number of delisted or suspended Main Board issuers is far more than that of GEM issuers.
16. The argument that the current Cashflow Requirement and the current market capitalisation requirement were introduced almost nine years ago and hence impliedly suggesting that it is now the time to change is misplaced. As a matter of fact, it is getting harder and harder for newly start-up businesses to compete as the market is already dominated by first or earlier movers.
17. There could be up to 30% and 12% of Selected GEM Issuers unable to list on GEM based on the increased Cashflow Requirement and the increased market capitalisation requirement, respectively. The proposed increase would be contrary to SEHK's intention to secure additional listings to come to Hong Kong and maintain Hong Kong's competitiveness as an IPO venue.
18. Other overseas stock markets have been finding ways to lower, not increase, their admission requirements in order to attract more listings. This is also why Hong Kong is having consultation to allow pre-profit companies and companies which have non-standard governance structures to list in Hong Kong. If the Hong Kong admission requirements are set unreasonably high to the extent that businesses find it unable, unattractive and/or unworthily to list in Hong Kong, it would be a self-inflicted damage to our own Hong Kong stock market as a whole.

GEM: Longer lock-up on controlling shareholders

19. We agree with the proposal to increase the GEM post-IPO lock up requirement so that those persons identified as controlling shareholders cannot dispose of any of their interests in the GEM listed issuer within the first year of listing and cannot dispose of any interest in the subsequent year that would result in them no longer being controlling shareholders.

GEM: Open market requirement

20. Hence, we agree with the proposal to align the GEM requirement on (a) placing to core connected persons, connected clients and existing shareholders, and their respective close associates with that of Appendix 6 to the Main Board Listing Rules and Guidance Letter HKEX-GL85-16 on “Placing to connected clients, and existing shareholders or their close associates, under the Rules”; and (b) the allocation of offer shares between public and placing tranches and the clawback mechanism to make it consistent with that in Practice Note 18 to the Main Board Listing Rules with our proposed introduction of a mandatory public offering mechanism of at least 10% of the total offer size of all GEM IPOs.

GEM: Proposed increase of minimum public float value

21. We do not agree with the proposal to increase the minimum public float value of securities from HK\$30 million to HK\$45 million for GEM listings.
22. We do not agree that low minimum public float value of securities (HK\$30 million) and low minimum market capitalisation (HK\$100 million) are the main causes of the volatility issue. If Main Board issuers go for a placing-only offering mechanism, they could also be affected by the volatility in the share price.
23. There are a number of GEM issuers that would be unable to satisfy the proposed increases of the market capitalisation and offer size requirements. The proposed increases would be contrary to the Hong Kong Government's effort to help and develop SMEs.

Main Board: Current role

24. The Main Board should continue to be positioned as a board for the largest companies that can meet the highest standards. It is desirable to preserve and enhance the reputation of the Main Board as our “premier” board.

Main Board: Profit Requirement

25. We agree with the proposal not to change the current Profit Requirement for Main Board listing.

Main Board: Market capitalisation requirement and public float value requirement

26. We do not agree with the proposal to increase the minimum market capitalisation requirement from HK\$200 million to HK\$500 million and the proposal to increase the minimum public float value requirement from HK\$50 million to HK\$125 million.
27. Market capitalisation depends on stock market performance, which fluctuates from time to time. By having a much higher market capitalisation requirement, listings would become very much susceptible to stock market performance and sentiment. During the time when the stock market performs poorly, which may take several years to recover, the higher market capitalisation requirement would become an unfair hurdle for listing applicants to list, even when they have good fundamentals and satisfy the Profit Requirement.
28. The valuation and hence the market capitalisation of new issuers are mainly determined with reference to P/E ratio. Having a much larger market capitalisation requirement is akin to imposing a higher Profit Requirement because the P/E ratio of a newly listed issuer cannot deviate too far from its industry comparables for those issuers that have already been listed. Hence the proposal to increase the minimum market capitalisation requirement and the minimum public float value requirement is self-defeating where there is no proposal to change the current Profit Requirement for Main Board listing.
29. By setting a higher market capitalisation requirement, there are bound to be companies which would be able to satisfy the Profit Requirement but not the higher market capitalisation requirement. Please see Figure 4 entitled "*Breakdown of Main Board IPOs by market cap*" set out on page 23 of this Response Paper. Based on our analysis, there are at least 20, 9, 16 and 9 new Main Board issuers listed in 2014, 2015, 2016 and 2017 (up to 31 July 2017), respectively, representing approximately 22%, 10%, 22% and 21% of the total number of new Main Board issuers during the same periods, that would fail to satisfy the proposed higher market capitalisation requirement and thus be unable to list should they be seeking a listing only after the implementation of the new proposal.
30. The proposed higher market capitalisation requirement has an unintended discriminatory effect towards certain industries. Please see Figure 5 entitled "*P/E ratios of listed companies by industry*" set out on page 24 of this Response Paper. Based on our analysis, since different industries have different P/E ratios, lower P/E ratio industry companies would find it harder to satisfy the Main Board admission requirements, which would eventually result in unbalanced development and composition of industries of listed issuers listed on Main Board. We do not see the rationale to give privilege to certain industries while penalise others in terms of listing based on the size of market capitalisation.

31. We do not see how the proposed increase would have any relevance to the quality of Main Board issuers. As pointed out in paragraphs 6 to 8 on page 3 of this Response Paper, there are a high number of delisted or suspended Main Board issuers.
32. Any artificially high market capitalisation would distort or even result in loss of the confidence of the market and investors as a whole. Issuers which insist to have its IPO valuation higher than its listed peers would typically find its stock unattractive to investors. In bad case scenario, there will be a plunge of stock prices upon or after listing when equilibrium is sought.

Main Board: Longer lock-up on controlling shareholders

33. We agree with the proposal to increase the Main Board post-IPO lock up requirement so that those persons identified as controlling shareholders cannot dispose of any of their interests in the Main Board listed issuer within the first year of listing and cannot dispose of any interest in the subsequent year that would result in them no longer being controlling shareholders.

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**CONSULTATION PAPER
ON REVIEW OF THE GROWTH ENTERPRISE MARKET (GEM)
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GENERAL RESPONSE

1. By way of summary, apart from certain minor improvements to GEM and Main Board, such as post-IPO lock up requirement, mandatory public offer mechanism and reallocation between public offer and placing tranches, we do not agree that GEM and Main Board should be overhauled.

GEM: Brief history

Decline in 2000s

2. The historical development of GEM had really given us valuable lessons. When GEM was launched in November 1999, it was based on the similar proposal that GEM was meant for "a venture board for smaller and emerging technology companies". It was also partly due to the then appetite for "companies that held out the promise of growth". Soon after the "dot-com" bubble burst, it turned out that confidence in the GEM has vanished and as a result the number of newly listed GEM issuer in second half of 2008 was zero.

Successful revival in 2008

3. It was not until 2008 when GEM was re-positioned from an alternative board for emerging and growth companies to a "stepping stone" to the Main Board to provide listing channel for smaller companies that has revived GEM. Important features for the success of GEM since then include that the power to approve or reject GEM listing applications was delegated by the Listing Committee to the Listing Department, and the GEM Streamlined Process was introduced for GEM Transfers. As a result, the number of newly listed GEM issuers has increased year on year from 5 in 2009 to as many as 45 in 2016.
4. We also consider that the sponsor regime implemented in October 2013 has increased and reinforced the quality of GEM issuers. Under the sponsor regime, GEM Transfer applicants are subject to the same due diligence process, prospectus disclosure requirements, suitability assessment and enforcement regime as those for Main Board applicants.

GEM: Reasons for its successful revival

5. In short, the success of GEM is mainly attributable to the fact that:
 - (a) GEM is a financing and listing platform for SMEs, which satisfy lower financial requirements and demonstrate a certain level of promise of growth;
 - (b) GEM does not differentiate specific industries for listing;
 - (c) GEM issuers have same quality as those of a Main Board issuer, as both GEM and Main Board issuers are subject to the same due

diligence process, prospectus disclosure requirements, suitability assessment and enforcement regime; and

- (d) GEM Streamlined Process makes it easier, as well as providing hope for GEM issuers to transfer to the Main Board if it could realize its promise of growth and satisfy the financial requirements for listing on Main Board.

GEM: Current role

As second board and a stepping stone to Main Board

6. The current purpose of GEM is to allow small to mid-sized companies to list under less stringent admission requirements and enable them to access the Hong Kong capital markets to develop their underlying businesses or assets, and subsequently transfer to the Main Board under the GEM Streamlined Process.
7. GEM should continue to be a "stepping stone" to the Main Board to provide listing channel for smaller companies that cannot satisfy the financial requirements of Main Board. It must be emphasised that the revival and recent success of GEM was attributable to its "stepping stone" feature.
8. Page 8 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that there were concerns on the overall quality of GEM. We consider that these concerns were either misplaced or solved. They are set out as below:

GEM: Placing-only offering mechanism and lower public shareholder requirement

9. Paragraphs 12(a) and (c) on page 8 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:
 - "(a) *applicants that are eligible to list on the Main Board can apply for a GEM listing instead, to make use of GEM's optional placing-only offering mechanism and lower public shareholder requirement without conducting a public offering, and then transfer to the Main Board at a later date*"
 - "(c) *GEM's optional placing-only offering mechanism and small minimum public shareholder requirement at the time of listing may have led to a high concentration of shareholders, illiquid shares and increased price volatility post listing*"

The GEM stock price volatility is systemic

10. Under the current Listing Rules regime, one important feature that differentiate Main Board and GEM is that while the share offer for Main Board listing applicant should consist of public offer and placing, share offer for GEM could

be placing only. Further, for Main Board issuers, it must have at least 300 shareholders at the time of listing, while GEM has no such requirement.

11. As a result, by having a placing-only mechanism without participation of public offer, the stock of newly listed GEM issuers may logically be held by fewer retail investors upon listing than that of Main Board. In the case of new listing for GEM issuers, if fewer shareholders are willing to offer for sale, there would be lesser supply and as a result demands for the stock could easily push up the stock price. It is akin to the Hong Kong property market and a natural causation for price hike, because of the supply and demand imbalance
12. The issue is systemic, because the current Listing Rules regime allows the share offer for GEM to go for a placing-only mechanism. It is an overstatement to argue that GEM issuers are ill-intentioned and thereby GEM should be overhauled.

GEM stock price volatility has no relevance to the quality of GEM issuers

13. Share offering, whether placing or public offer, would be handled by underwriters and placing agents, not the listing applicant nor the sponsor. Share offering will only take place after a listing application has passed the hearing and the listing applicant obtains an approval in principle from SEHK. By that time, it signifies that the regulators have no further question on the quality of the listing applicant to list. Hence, GEM stock price volatility has no relevance to the quality of GEM issuers.

Solution already in place for GEM stock price volatility

14. This issue could easily be solved by applying the Main Board's stringent open market requirement to GEM. Indeed, this issue has been tackled successfully by both SEHK and SFC since January 2017 by issuing and implementing the Guideline to Sponsors, Underwriters and Placing Agents involved in the Listing and Placing of GEM stocks.
15. Since then, most of the share offer for GEM listing applicants have been conducted by way of public offer and placing, or pure public offer. With more public participation through public offer, the volatility in share price of newly listed GEM issuers has diminished.
16. Since the implementation of the Guideline to Sponsors, Underwriters and Placing Agents involved in the Listing and Placing of GEM stocks effective from 20 January 2017, an overwhelming number of the newly listed GEM issuers has only minimal increase on the first day of listing. The volatility concern, which is systemic, has been effectively solved.
17. We believe the solution of the volatility concern was largely due to the fact that an overwhelming number of GEM issuers have voluntarily opted for public offer and placing, or public offer only, mechanism. As it has become a practice in any event, we agree the proposal to introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs.

18. Since the volatility concern has been effectively solved, and it is proposed to introduce a mandatory public offering mechanism for all GEM IPOs in any event, we do not consider there should be an on-going concern for GEM's placing-only offering mechanism and lower public shareholder requirement. There should be no valid reason to overhaul GEM's stepping stone feature and the GEM Streamlined Process.

GEM: Lower admission requirements

19. Paragraph 12(b) on page 8 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:

"(b) GEM's lower admission requirements, compared with those of the Main Board, may have been exploited by certain companies to access the Hong Kong capital markets for the premium attached to a listing status (rather than to develop their businesses) and this may have led to an increase in the number of potential shell companies listed on GEM"

Higher admission requirements do not mean quality

20. The above was based on the wrong concept that the larger the size of the issuers or the higher admission requirements, the higher the quality and performance of issuers would be. What's really improving the quality of issuers is comprehensive due diligence process, robust prospectus disclosure requirements and strict enforcement regime, not the size of the issuers. In fact, as larger size or higher admission requirements would result in higher IPO fund raised, there is certainly more incentive for rogue listing applicants (which is in the minority) to cook the books or otherwise carry out irregularities. We do not agree with the view that the larger the better, in particular after examining cases of delisted issuers that resulted in shareholders losing, or being locked up, part or possibly all of their investments under the suspension, and possibly eventual delisting. These delisted issuers were all listed on Main Board and had market capitalisation upon listing ranging from HK\$2 billion to HK\$6 billion.
21. Based on the Prolonged Suspension Status Report for each of Main Board and GEM posted by SEHK on 1 August 2017, we set out below the number of companies which have been suspended for three months or more as at 30 June 2017:

Figure 1: Number of prolonged suspended listed companies

No.	Type of Irregularity that causes suspension	No. of Main Board issuer	No. of GEM issuer
1	Severe financial difficulties and/or have ceased to maintain sufficient operations	23	2
2	Irregularities and/or are under regulatory investigation	20	0

No.	Type of Irregularity that causes suspension	No. of Main Board issuer	No. of GEM issuer
3	Failed to publish financial results and/or identified material internal control weaknesses	9	0
4	Others, including failure to publish material information, or have public float issues	3	0
	Total	55	2

Figure 2: Breakdown of prolonged suspended listed companies by Main Board and GEM

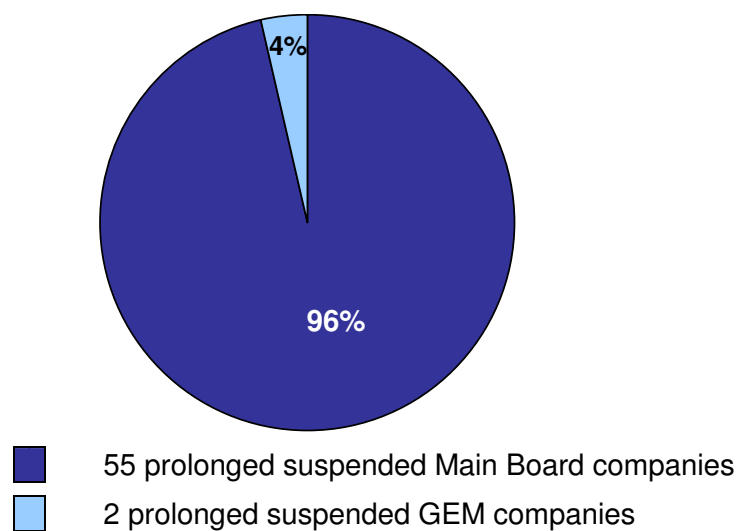
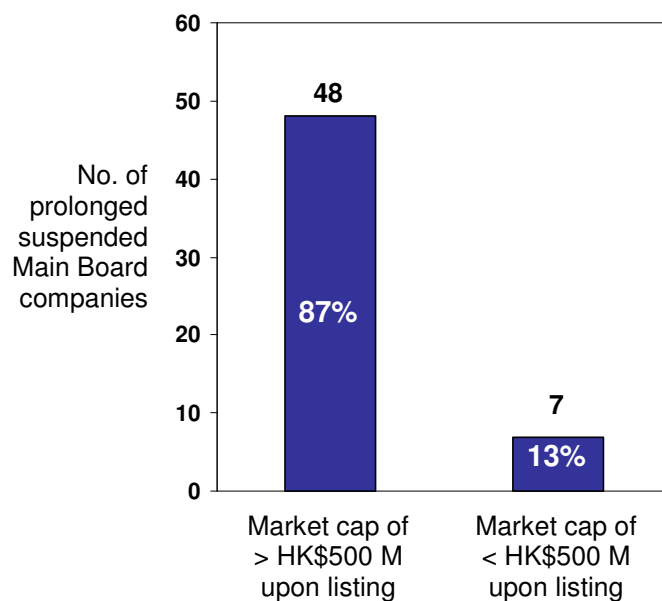


Figure 3: Breakdown of prolonged suspended Main Board listed companies by market cap upon listing



As illustrated above, there are as many as 55 Main Board issuers being suspended due to various types of irregularities, while only 2 GEM issuers have been so suspended. And the overwhelming majority of the suspended Main Board issuers therein had market capitalisation of over HK\$500 million upon listing. The above is the best statistics to illustrate that higher admission requirements do not necessarily equate with quality, and that the argument that GEM issuers are of generally low quality is an unsupported statement.

Both GEM and Main Board issuers have premium attached to listing status

22. Although it may be true that there would be premium attached to a listing status, such premium represents one of the factors for private companies aiming for listing. The premium for listing exist in both Main Board and GEM. Yet, such premium is not a gift for issuers. In order to achieve the listing status, a business would at least need to have the quality and performance required for listing, satisfy a significant number of requirements prior to and post listing, and disclose its operational and financial matters to the public.

Both GEM and Main Board have potential shell companies listed

23. For shell companies, the reality of the matter is that shell companies exist in all listing platforms around the world, including Hong Kong's Main Board. It is unfair to call certain listed companies a "shell", because a listed company should be allowed to freely manage and operate its business and affairs. The controlling shareholders should be free to decide whether to change hands, subject to the appropriate rules and regulations. To label a listed company, which conducts a very substantial acquisition and/or change of controlling shareholders as "shell", is no more than a post ipso facto label.
24. The argument that GEM's lower admission requirements lead to the creation of shell companies listed on GEM must fail, because (a) if there is "shell" phenomena in GEM, the same phenomena also exist in Main Board; and (b) there would be more "shell" phenomena in New Board because New Board is proposed to adopt even lower admission requirements.
25. All in all, to argue that GEM should be overhauled based on the concern that there is a premium attached to a listing status rather than to develop their business, and led to an increase in the number of potential shell companies listed on GEM, is an overstatement. It is a self-defeating point because the same concern would also be valid for Main Board and the proposed New Board.

GEM: Streamlined Process

26. Paragraph 12(d) on page 8 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:
 - "(d) *the GEM Streamlined Process is contrary to the objective of the sponsor regime implemented in October 2013 as it does not require the appointment of sponsor and the preparation of a listing document for GEM Transfers. This means that GEM Transfer applicants are not subject to a due diligence process as*

comprehensive as that for new applicants directly applying to be listed on the Main Board. Therefore, the GEM Streamlined Process does not provide sufficient shareholder protection and potentially affects the quality of the Main Board. Comments in the market are particularly concerned with those GEM Transfer applicants that have changed their controlling shareholders and/or principal businesses after listing on GEM"

27. We do not agree with the argument that the GEM Streamlined Process does not provide sufficient shareholder protection and potentially affects the quality of the Main Board.

GEM Streamlined Process is an integral part of GEM's success

28. As mentioned above, one of the important factors that revived and helped the success of GEM is the GEM Streamlined Process, which makes it easier for GEM issuers to transfer to Main Board if it could realize its promise of growth and satisfy the financial requirements for listing on Main Board.

Current due diligence process, prospectus disclosure requirements, suitability assessment and enforcement regime for GEM and Main Board listings are the SAME

29. Since GEM was re-positioned in July 2008, most of the original features of GEM were repealed and many of the GEM Listing Rules were amended to align with those of the Main Board Listing Rules. Under the current Listing Rules regime, there is a high degree of alignment between the Main Board Listing Rules and GEM Listing Rules. In other words, GEM issuers and Main Board issuers are more or less subject to same set of Listing Rules.
30. Further, in terms of the New Sponsor Regime implemented in 2013, the strict requirements laid down by Listing Rules, GEM Listing Rules and the New Sponsor Regime, including due diligence requirements set out in Practice Note 21 of the Main Board Listing Rules, Practice Note 2 of GEM Listing Rules and Paragraph 17 of the Code of Conduct for Persons Licensed by or Registered with the SFC, do not differentiate the duties and obligations of the sponsors for GEM and Main Board listing applications. Indeed, the prospectus disclosure requirements for GEM are even higher than that of Main Board. For example, GEM issuers need to additionally disclose business objectives in the prospectus and issue quarterly results and reports.
31. It is instructive to note the findings of the Securities and Futures Appeals Tribunal (SFAT) in respect of GEM and Main Boards due diligence standards in the case of Sino-Life Group Limited. In that case, the SFAT drew no distinction between the nature and breadth of due diligence in respect of GEM and Main Board listings. SFAT concurred and held that:

"50. For the avoidance of any doubt, we wish to make it plain that, in our view, there is no difference in the standards of due diligence expected in GEM and Main Board listings. The regulatory framework to which we have made reference implies no such distinction."

32. In other words, under the current regime, the GEM prospectuses, GEM issuers and sponsors for GEM listings are all subject to the same strict pre and post listing requirements as those of Main Board. The only notable differences are that (1) GEM has lower admission requirements; and (2) GEM has the optional placing-only offering mechanism and lower public shareholder requirement. In practice, the real difference would be that GEM has lower admission requirements. The optional placing-only offering mechanism and lower public shareholder requirement would no longer be an issue (see paragraphs 14 to 18 on pages 10 and 11 of this Response Paper).

It is unfair for GEM issuers to go through the SAME IPO process once more to transfer to Main Board

33. It would be unduly burdensome in terms of timing and costs for GEM issuers, which have incurred vast listing expenses and gone through the same strict vetting process and be responsible for the same duties and responsibility as Main Board issuers, to incur at least the same, if not more, time and costs to transfer their listings to the Main Board.
34. We do not agree with the assertion that GEM Transfer applicants are not subject to a due diligence process as comprehensive as that for new applicants directly applying to be listed on the Main Board. Indeed, when they are first listed on GEM, GEM issuers have incurred significant listing expenses, gone through the same strict vetting process, and been responsible for the same duties and responsibility as Main Board issuers.
35. Further, for post listing matters, GEM issuers are subject to even more stringent disclosure requirements by issuing annual and quarterly results and reports. GEM issuers are also subject to the same legal requirements of disclosing inside information under the SFO as the Main Board issuers. For example, if there is any change of controlling shareholders and principal business after listing on GEM, there are strict requirements to disclose such changes. Based on the frequent quarterly financial results, any inside information disclosure including the changes of controlling shareholders or principal business, annual reports with the audited financial figures and the formal transfer announcement, the shareholders, the market and the regulators should be able to know reasonably well of the status of GEM Transfer applicants.
36. We do not agree with the assertion that the GEM Streamlined Process potentially affects the quality of the Main Board. As mentioned above, GEM Transfer applicants have gone through comprehensive due diligence process as well as subject to the vetting and disclosure requirements same as, if not more than, those of Main Board when they applied for listing on GEM, and are required to satisfy the admission requirements of Main Board when they apply to transfer to Main Board.
37. Based on the above, we do not agree that GEM Transfer applicants should be required to appoint a sponsor and issue a "prospectus standard" listing document. GEM Transfer applicants have experienced the listing process already. Requiring them to incur the same listing expenses and process is unnecessary especially they are already subject to strict ongoing disclosure of their financial condition and operation.

38. To address the concern that some GEM Transfer applicants have changed their principal businesses after listing on GEM before they seek to transfer to Main Board, we suggest that, for GEM Streamlined Process to apply, there shall be no fundamental change in the principal business activities as described in the GEM prospectus as set out in Rule 14.89 of the Main Board Listing Rules since the GEM listing. While it may be right for GEM Transfer applicants to appoint a sponsor and issue a "prospectus standard" listing document where they have changed their principal businesses since GEM listing, it would be unduly burdensome to do so if their principal businesses remain the same as those described in the GEM prospectus.

GEM: "Stepping stone" feature

39. Page 8 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed that GEM's "stepping stone" positioning has achieved limited success based on the fact that the number of GEM Transfers per annum from 2009 to 2016 is from 2 to 14 cases, representing about 1% to 7% of the total number of GEM issuers.

GEM's "stepping stone" feature is an integral part of GEM's success

40. We do not agree with the argument that low number of GEM Transfers signifies GEM's "stepping stone" feature has limited success. As pointed out above, GEM's "stepping stone" feature is essential to ensure continued success of GEM. GEM's "stepping stone" feature and the GEM Streamlined Process for GEM Transfers give a realistic hope to the GEM listing applicants and GEM issuers to transfer to the Main Board based on the GEM Streamlined Process if they could realize their promise of growth and satisfy the requirements for listing on Main Board. They have made GEM attractive and helped revived the GEM.

GEM: Proposed additional requirements for transfer to Main Board

41. We note that it was proposed that all GEM Transfer applicants must have achieved the following before they can be considered for a GEM Transfer:
- (a) published and distributed at least two full financial years of financial statements after a GEM listing (instead of the current requirement of one full financial year of financial statements); and
 - (b) not been subject to any disciplinary investigation by the Exchange in relation to a serious breach or potentially serious breach of any Listing Rules for 24 months (instead of the current requirement of 12 months).
42. We do not agree with the proposal above. There are GEM issuers which opted for GEM listing because they only marginally failed to meet the listing eligibility requirements for Main Board listing. If there are GEM issuers which could demonstrate that they are eligible for Main Board listing in all aspects following its one full financial year after GEM listing, we do not see the rationale to penalise such promising GEM issuers by extending the current requirements of one year of financial statements to two years, and 12 months of clean disciplinary record to 24 months.

43. It must be noted that the current requirements of one year of financial statements and 12 months of clean disciplinary record are not the only conditions that GEM Transfer applicants need to satisfy. Under the existing rules (Chapter 9A of Main Board Listing Rules), all GEM Transfer applicants are also required to meet all the qualifications for listing on the Main Board, including the financial eligibility, ownership continuity, management continuity and market capitalisation requirements for Main Board. All these requirements perform a gatekeeper role adequately and there is no reason to further burden promising GEM Transfer applicants, which have incurred vast listing expenses and gone through the same strict vetting process and be responsible for the same duties and responsibility as Main Board issuers.

GEM: Proposed renaming

44. We agree changing the names of "Growth Enterprise Market" and 「創業板」 to "GEM".

GEM: Proposed increase of Cashflow Requirement and market capitalisation requirement

45. Paragraphs 24 and 25 on page 11 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that the current Cashflow Requirement and the current market capitalisation requirements were introduced almost nine years ago.

46. Paragraph 28 on page 12 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:

"28. ...we propose to increase the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million. In doing so, we aim to improve the overall quality of GEM by attracting applicants with stronger cash flow performance. We believe the higher requirement will not be unduly onerous"

47. Paragraph 30 on page 12 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:

"30. To improve the quality of GEM applicants, in particular in light of market concerns on the liquidity of GEM issuers, we propose to increase the minimum market capitalisation at listing from HK\$100 million to HK\$150 million..."

Higher admission requirements do not mean quality

48. We do not agree that the increase of the Cashflow Requirement from HK\$20 million to HK\$30 million and the increase of the market capitalisation requirement from HK\$100 million to HK\$150 million would have any relevance to the quality of GEM. For Main Board, the current profit requirement is HK\$50 million and the current market capitalisation requirement is HK\$200 million. We note that a number of delisted Main Board issuers having very high market capitalisation upon listing have resulted in shareholders losing, or being locked up, part or possibly all of their investment. These delisted Main

Board issuers have market capitalisation upon listing ranging from HK\$2 billion to HK\$6 billion.

49. Please see Figures 1, 2 and 3 set out on pages 11 and 12 of this Response Paper. Based on the Prolonged Suspension Status Report for each of Main Board and GEM posted by SEHK on 1 August 2017, there are as many as 55 Main Board issuers being suspended due to various types of irregularities, while only 2 GEM issuers have been so suspended. And the overwhelming majority of the suspended Main Board issuers therein had market capitalisation of over HK\$500 million upon listing.

It is not easy nowadays for SMEs to satisfy the current GEM admission requirements

50. The argument that the current Cashflow Requirement and the current market capitalisation requirement were introduced almost nine years ago and hence impliedly suggesting that it is now the time to change is misplaced. While it may be true that the value of currency have depreciated over the years, one must bear in mind that earlier businesses have the first-mover advantage. As a matter of fact, it is getting harder and harder for newly start-up businesses to compete as the market is already dominated by first or earlier movers.
51. As pointed out in paragraph 24 on page 11 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules*, 70% (85 of 121) of Selected GEM Issuers recorded aggregate operating cash flow before changes in working capital of HK\$30 million and above, while 88% (107 of 121) of Selected GEM Issuers had market capitalisation of HK\$150 million or above at the time of listing. In other words, up to 30% and 12% of Selected GEM Issuers would be unable to list on GEM based on the increased Cashflow Requirement and the increased market capitalisation requirement, respectively.

We should support SMEs as the Government does

52. As pointed out in paragraph 6 on page 9 of this Response Paper, the current purpose of GEM is to allow small to mid-sized companies to list under less stringent admission requirements and enable them to access the Hong Kong capital markets to develop their underlying businesses or assets. This is based on one important social consensus that a society must support small and medium enterprises (SMEs).
53. According to the statistics of the Hong Kong Government, as at March 2017, there were about 320,000 SMEs in Hong Kong, which accounted for over 98% of the total business units and provided job opportunities to nearly 1.3 million persons, about 46% of the total employments in Hong Kong. Based on The 2017-18 Budget speech by the Financial Secretary of Hong Kong, he emphasised that the Hong Kong Government has always attached great importance to the development of SMEs and rendered them key assistance in tapping new markets and enhancing overall competitiveness.
54. Providing SMEs with access to capital market is one of the ways to develop SMEs. By increasing the Cashflow Requirement and the market capitalisation requirement, there would be fewer eligible SMEs to be able to fulfil the higher

admission requirements, while such increases have no direct relevance to the quality and performance of GEM issuers as shown by the statistics.

55. One additional point why the admission requirements should not simply change is that Hong Kong stock market is having cut throat competition with other overseas stock markets as Hong Kong's competitors. Other overseas stock markets have been finding ways to lower, not increase, their admission requirements in order to attract more listings. This is also why Hong Kong is having consultation to allow pre-profit companies and companies which have non-standard governance structures to list in Hong Kong. If Hong Kong's admission requirements are set at an unreasonably high level, overseas businesses would find themselves unable, unattractive and/or unworthily to list in Hong Kong. This would be a self-inflicted damage to the Hong Kong stock market as a whole.

GEM: Longer lock-up on controlling shareholders

56. For GEM listings, the proposed use of IPO proceeds, the detailed plan to carry out business objectives, the mandatory profit forecast and cashflow forecast would ensure the sustainability of the business at least one year after listing. There is no compelling reason for GEM issuers to change its controlling shareholders and/or conduct post-listing fundraising through issues of securities within two years of listing. Indeed, we note that controlling shareholders of some issuers have voluntarily agreed to longer lock-up on their shareholdings.
57. We agree with the proposal to increase the GEM post-IPO lock up requirement so that those persons identified as controlling shareholders cannot dispose of any of their interests in the GEM listed issuer within the first year of listing, and cannot dispose of any interest in the subsequent year that would result in them no longer being controlling shareholders.

GEM: Open market requirement

58. Paragraph 38 on page 13 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:

"38. There are recent concerns that the shares of many GEM issuers lack an open market and their shareholdings are concentrated among a small group of shareholders, which result in the shares not being freely tradeable on the Exchange. This causes sharp movements in the share prices of such GEM issuers. It is believed that GEM's optional placing-only offering mechanism, low minimum number of shareholder requirement (100 public shareholders), low minimum public float value of securities (HK\$30 million) and low minimum market capitalisation (HK\$100 million) are the main causes of the issues leading to such concerns."

59. We agree that the volatility in the share prices of GEM issuers was mainly due to GEM's optional placing-only offering mechanism and low minimum number of shareholders requirement. As mentioned in paragraphs 10 to 18 on pages 9 to 11 of this Response Paper, by having placing-only mechanism without

participation of public offer, the stock of newly listed GEM issuers may logically be held by fewer retail investors upon listing than that of Main Board. In the case of new listing GEM issuers, if fewer shareholders are willing to offer for sale, there would be less supply and as a result, demands for the stock could easily push up the stock price. It is akin to the Hong Kong property market and a natural causation for price hike, because of the supply and demand imbalance.

60. Hence, we agree with the proposal to align the GEM requirement as to (a) placing to core connected persons, connected clients and existing shareholders, and their respective close associates with that of Appendix 6 to the Main Board Listing Rules and Guidance Letter HKEX-GL85-16 on "Placing to connected clients, and existing shareholders or their close associates, under the Rules"; and (b) the allocation of offer shares between public and placing tranches with the clawback mechanism to make it consistent with that of Practice Note 18 to the Main Board Listing Rules with our proposed introduction of a mandatory public offering mechanism of at least 10% of the total offer size of all GEM IPOs.

"High shareholding concentration" in placing of GEM stocks

61. We recognise that the implementation of the Guideline to Sponsors, Underwriters and Placing Agents involved in the Listing and Placing of GEM stocks effective from 20 January 2017 effectively solved the issue of volatility in share price of GEM stocks.
62. Despite the effective measures, we would still very much like to know whether regulators would take or consider the percentage of the total number of placing shares allocated to the top 25 placees as a factor to determine whether there is a high shareholding concentration. Hence, we hope SEHK to clarify with SFC on this point so that the underwriters and placing agents could follow.

"High shareholding concentration" in public offer of GEM stock

63. We would also express our grave concern on the SFC's recent objection to a GEM IPO conducted entirely through a public offer on the ground of "an exceptionally high shareholding concentration". We are concerned by this objection because in an entire public offer process, neither the issuer, the sponsor nor underwriters would be able to control the composition of investors. Under a public offer, an investor is permitted to apply to subscribe from as low as one board lot of shares up to half of the number of shares available under the public offer. Hence it is reasonable for a public offer to have shareholders subscribing smaller lots while some could desire to subscribe for larger lots.
64. Allocation of shares under a public offer is handled by the share registrar, who would normally carry out allocation based on preferred sizeable allocation, preferred small size allocation or on an equal basis. It is an established practice which help issuers to have a retail as well as professional and institutional shareholder base to the benefit of the issuers and their shareholders as a whole. We fail to see why SFC objected the listing under the assumption that an "exceptionally high shareholding concentration" in a public offer would not be in the interest of the investing public or the public

interest while the company has satisfied all applicable GEM Listing Rules (including the number of shareholders upon listing).

65. Objection to an otherwise approved IPO is a serious matter which should be reserved for only the most egregious cases, and should be conducted in an entirely transparent and accountable manner. Hence, we would very much hope that SEHK could clarify with SFC as to what constitutes an "exceptionally high shareholding concentration" in a public offer exercise and issue a workable guideline as appropriate.

GEM: Proposed increase of minimum public float value

66. We do not agree that low minimum public float value of securities (HK\$30 million) and low minimum market capitalisation (HK\$100 million) are the main causes of volatility in the share price. Such requirements signify the low admission requirements for GEM listings but should have no relevance to open market assessment. If Main Board issuers adopt the placing-only offering mechanism, they could also be affected by the volatility.
67. We also note from paragraph 50 on page 16 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* that:

"50. The average market capitalisation and offer size of Selected GEM Issuers (excluding those with significantly large market capitalisation of HK\$1,000 million or more at the time of listing) were HK\$274 million and HK\$69 million, respectively."

68. What the above means is that there are a number of GEM issuers that would be unable to satisfy the proposed increases of the market capitalisation and offer size requirements. As mentioned in paragraph 53 on page 18 of This Response Paper, the proposed increases would be contrary to the Hong Kong Government's effort to help and develop SMEs.
69. Based on the above, we do not agree with the proposal to increase the minimum public float value of securities from HK\$30 million to HK\$45 million for GEM listings.

Main Board: Current role

70. The Main Board should continue to be positioned as a board for the largest companies that could meet the highest standards. It is desirable to preserve and enhance the reputation of the Main Board as our "premier" board.

Main Board: Profit Requirement

71. Paragraph 55 on page 17 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:

"55. The Profit Requirement was implemented in September 1994 and was last subject to a public consultation in the 2002 Consultation Paper. In April 2010, the Listing Committee comprehensively reviewed the Main Board eligibility

requirements and concluded that the Profit Requirement was generally a good indicator of a listing applicant's future profitability and that no significant changes to it were necessary. In June 2016, the Listing Committee considered the Profit Requirement again and decided that there did not appear to be compelling reasons to change it or replace it with a minimum cash flow requirement."

72. Although the current Main Board Profit Requirement was introduced some time ago, we reiterate that earlier businesses have the first-mover advantage. As a matter of fact, it is getting harder and harder for newly start-up businesses to compete as the market is already dominated by first or earlier movers.
73. Hence, we agree with the proposal not to change the current Profit Requirement for Main Board listing.

Main Board: Market capitalisation requirement and public float value requirement

74. Paragraphs 57, 58 and 59 on page 17 of the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules* pointed out that:

"57. We propose to increase the minimum market capitalisation requirement at the time of listing for Main Board applicants from at least HK\$200 million to at least HK\$500 million."

"58. We believe that this proposal broadly reflects the growth of Main Board issuers since the last public consultation on this subject in 2002. The proposal will also position the Main Board closer to the minimum market capitalisation requirement of some of the Selected Overseas Main Markets (i.e. Nasdaq Global Select Market, NYSE and SGX)."

"59. As we propose to increase the minimum market capitalisation requirement at listing for Main Board applicants to HK\$500 million, we propose a proportionate increase in the minimum public float value requirement for Main Board applicants from HK\$50 million (25% of HK\$200 million) to HK\$125 million (25% of HK\$500 million)."

75. We do not agree with the proposal to increase the minimum market capitalisation requirement from HK\$200 million to HK\$500 million and the proposal to increase the minimum public float value requirement from HK\$50 million to HK\$125 million.

Unfair hurdle for listing during poor stock market performance

76. Market capitalisation depends on stock market performance, which fluctuates from time to time. By having a much higher market capitalisation requirement, listings would become very much susceptible to stock market performance and sentiment. During the time when the stock market performs poorly, which

may take several years to recover, the higher market capitalisation requirement would become an unfair hurdle for listing applicants to list, even when they have good fundamentals and satisfy the Profit Requirement.

Higher market cap requirement indirectly increases profit requirement

77. The valuation and hence the market capitalisation of new issuers are mainly determined with reference to P/E ratio. Having a much larger market capitalisation requirement is akin to imposing a higher Profit Requirement because the P/E ratio of a newly listed issuer cannot deviate too far from its industry comparables for those issuers that have already been listed. Hence the proposal to increase the minimum market capitalisation requirement and the minimum public float value requirement is self-defeating where there is no proposal to change the current Profit Requirement for Main Board listing.

Loss and missed opportunity for Hong Kong

78. By setting a higher market capitalisation requirement, there are bound to be companies which would be able to satisfy the Profit Requirement but not the higher market capitalisation requirement:

Figure 4: Breakdown of Main Board IPOs by market cap

	2014	2015	2016	2017 ²
Total no. of new listing ¹	90	90	72	43
-- of which market cap > HK\$500 M as at IPO	70	81	56	34
-- of which market cap < HK\$500 M as at IPO	20	9	16	9
Failure rate	22%	10%	22%	21%

Notes:

¹ Excluding transfers from GEM and listing by introduction.

² Up to 31 July 2017.

Based on our analysis above, there are at least 20, 9, 16 and 9 new Main Board issuers listed in 2014, 2015, 2016 and 2017 (up to 31 July 2017), respectively, representing approximately 22%, 10%, 22% and 21% of the total number of new Main Board issuers during the same periods, that would fail to satisfy the proposed higher market capitalisation requirement and thus be unable to list should they be seeking a listing only after the implementation of the new proposals.

79. We see the above approach as resulting in losses and missed opportunities for Hong Kong. If Hong Kong's policy direction is intended to tap the listing market for pre-profit and WVR structured companies by establishing a New Board, the proposed higher market capitalisation requirement for Main Board

would be contrary to SEHK's intention to secure additional listings coming to Hong Kong and maintain Hong Kong's as a competitive IPO venue.

Discriminatory to certain industries that have low P/E ratio

80. The proposed higher market capitalisation requirement has an unintended discriminatory effect towards certain industries. Please see below our analysis of P/E ratios for different industries:

Figure 5: P/E ratios of listed companies by industry

Industries in HK ¹	PE Ratio simple average ²
Airlines	10.77
Banks	11.03
Road & Rail	14.82
Air Freight & Logistics	14.94
Real Estate	15.59
Transportation Infrastructure	15.68
Automobiles & Components	16.86
Utilities	17.10
Household & Personal Products	17.52
Technology Hardware & Equipment	17.53
Materials	17.86
Insurance	18.12
Diversified Financials	18.63
Industrials	19.51
Consumer Durables & Apparel	19.63
Consumer Services	20.23
Telecommunication Services	21.30
Retailing	21.43
Food Beverage & Tobacco	21.49
Media	21.84
Energy	22.48
Software & Services	23.23
Semiconductors	23.56
Health Care	24.80
Marine	24.91
Food & Staples Retailing	27.44

Notes:

¹ Based on closing prices of 31 July 2017.

² Industry classification is based on Global Industry Classification Standard (GICS).

81. Based on the P/E ratios analysis above, since different industries have different P/E ratios, lower P/E ratio industry companies would find it harder to satisfy the Main Board admission requirements, which would eventually result

in unbalanced development and composition of industries of listed issuers listed on Main Board. We do not see the rationale to give privilege to certain industries while penalise others in terms of listing based on the size of market capitalisation.

Higher market cap does not mean quality

82. As pointed out in paragraphs 20 and 21 on pages 11 to 13 of this Response Paper, there is a misconception that the larger the size of the issuers, or the higher admission requirements, would mean enhancement to the quality and performance of issuers. As pointed out above, as larger size or higher admission requirements would result in higher IPO fund raised, there is all the more incentive for rogue listing applicants (which is in the minority) to cook the books or otherwise carry out irregularities. We note that a number of delisted Main Board issuers have high market capitalisation upon listing, which have resulted in shareholders losing, or being locked up, part or possibly all of their investments under the suspension, and possibly eventual delisting. These delisted Main Board issuers have market capitalisation upon listing ranging from HK\$2 billion to HK\$6 billion.
83. Please see Figures 1, 2 and 3 set out on pages 11 and 12 of this Response Paper. Among the 55 suspended Main Board issuers set out in the Prolonged Suspension Status Report (Main Board) posted by SEHK on 1 August 2017, the overwhelming majority of the suspended Main Board issuers therein had market capitalisation of over HK\$500 million upon listing. This indicates that higher market capitalisation does not necessarily equate with quality.

Artificially high market cap would result in loss of confidence

84. Any artificially high market capitalisation would distort or even result in loss of the confidence of the market and investors as a whole. In order to get listed under the proposed increased market capitalisation requirement, there are bound to be cases where Main Board issuers set a market capitalisation higher than that expected by the market and investors. Issuers which insist to have its IPO valuation higher than its listed peers would typically find its stock unattractive to investors. In bad case scenario, there will be a plunge of stock prices upon or after listing when equilibrium is sought.

No need to follow other overseas main markets

85. There is also no compelling reason to position the Main Board closer to the minimum market capitalisation requirement of other overseas main markets. While there are various factors affecting listing applicant's decision to choose a listing platform most suitable to its needs, it is difficult to contemplate a listing applicant choosing a listing platform based on the higher market capitalisation requirement.
86. We would emphasise that the admission requirements should stay the same as Hong Kong stock market is having cut throat competition with other overseas stock markets as Hong Kong's competitors. If Hong Kong's admission requirements are set at an unreasonably high level, overseas businesses would find themselves unable to list in Hong Kong. This would be a self-inflicted damage to the Hong Kong stock market as a whole.

Main Board: Longer lock-up on controlling shareholders

87. For Main Board listings, the proposed use of IPO proceeds, the mandatory profit forecast and cashflow forecast would ensure the sustainability of the business at least one year after listing. There is no compelling reason for Main Board issuers to change its controlling shareholders and/or conduct post-listing fundraising through issues of securities within two years of listing. Indeed, we note that controlling shareholders of some issuers have voluntarily agreed to longer lock-up on their shareholdings.

88. We agree with the proposal to increase the Main Board post-IPO lock up requirement so that those persons identified as controlling shareholders cannot dispose of any of their interests in the Main Board listed issuer within the first year of listing and cannot dispose of any interest in the subsequent year that would result in them no longer being controlling shareholders.

* * * * *

**CONSULTATION PAPER
ON REVIEW OF THE GROWTH ENTERPRISE MARKET (GEM)
AND CHANGES TO THE GEM AND MAIN BOARD LISTING RULES**

SPECIFIC RESPONSE

Q1 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)?

We refer to paragraphs 26 to 38 on pages 13 to 16 of this Response Paper.

We do not agree with this proposal.

Q2 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?

We refer to paragraphs 41 to 43 on pages 16 and 17 of this Response Paper.

We do not agree with this proposal.

Q3 Do you agree with the proposal to retain the current track record requirement under the GEM Listing Rules (i.e. two financial years)?

We agree with this proposal.

Q4 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?

We agree with this proposal.

Q5 Do you agree with the proposal to increase the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million?

We refer to paragraphs 45 to 55 on pages 17 to 19 of this Response Paper.

We do not agree with this proposal.

Q6 Do you agree with the proposal to increase the minimum market capitalisation requirement at listing from HK\$100 million to HK\$150 million?

We refer to paragraphs 45 to 55 on pages 17 to 19 of this Response Paper.

We do not agree with this proposal.

Q7 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?

We refer to paragraphs 56 and 57 on page 19 of this Response Paper.

We agree with this proposal.

Q8 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?

We refer to paragraphs 9 to 18 on pages 9 to 11, and paragraphs 58 to 65 on pages 19 to 21, of this Response Paper.

We agree with this proposal.

Q9 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

(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?

We refer to paragraphs 9 to 18 on pages 9 to 11, and paragraphs 58 to 65 on pages 19 to 21, of this Response Paper.

We agree with this proposal.

Q10. Do you agree with the proposal to increase the minimum public float value of securities from HK\$30 million to HK\$45 million?

We refer to paragraphs 66 to 69 on page 21 of this Response Paper.

We do not agree with this proposal.

Q11. Do you agree with using the Profit Requirement to determine eligibility to list on the Main Board? If not, what alternative test should be used? Please give reasons for your views.

The Profit Requirement has been effective throughout the years. We agree to continue to use Profit Requirement as one of the three tests to determine eligibility to list on the Main Board. We do not see any need to change it.

Q12. If you agree to retain the Profit Requirement, do you agree that the current level of profit under the Profit Requirement should remain unchanged?

We refer to paragraphs 71 to 73 on pages 21 and 22 of this Response Paper.

We agree that the current level of profit under the Profit Requirement should remain unchanged.

Q13. Do you agree with the proposal to increase the minimum market capitalization requirement at listing for Main Board applicants from at least HK\$200 million to at least HK\$500 million?

We refer to paragraphs 74 to 86 on pages 22 to 25 of this Response Paper.

We do not agree with this proposal.

Q14. 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?

We refer to paragraphs 74 to 86 on pages 22 to 25 of this Response Paper.

We do not agree with this proposal.

Q15. 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?**

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.

We refer to paragraphs 87 and 88 on page 26 of this Response Paper.

We agree with this proposal.

Q16. Do you agree that the proposals for the Main Board should be considered independently irrespective of the outcome of the proposals for GEM?

As submitted under paragraph 1 on page 8 of this Response Paper, apart from certain minor improvements to GEM and Main Board, such as post-IPO lock up requirement, mandatory public offer mechanism and reallocation between public offer and placing tranches, we do not agree that GEM and Main Board should be overhauled.

As set out under the *Consultation Paper on the Review of the GEM and Changes to the GEM and Main Board Listing Rules*, the review of the Main Board, GEM and New Board should be a holistic one. Any review and amendment to any of Main Board and GEM on independent basis would disregard the need of the listing applicants, investors, practitioners and the market and we do not see it would be in the interest of everyone collectively.

* * * * *

Appendix 1

List of financial intuitions authorizing this Response Paper

(in alphabetical order)

1. CLC International Limited
2. Convoy Capital Hong Kong Limited
3. Dakin Capital Limited
4. Euto Capital Partners Limited
5. Ever-Long Securities Company Limited
6. Frontpage Capital Limited
7. Gransing Securities Co., Limited
8. Huabang Corporate Finance Limited
9. Kingston Corporate Finance Limited
10. Messis Capital Limited
11. Red Sun Capital Limited
12. TC Capital International Limited
13. VC Capital Limited
14. WAG Worldsec Corporate Finance Limited

List of persons authorizing this Response Paper

(in alphabetical order)

1. Chan, Hi Kit (SPDB International Capital Limited)
2. Chan, Ivan Chuk Cheung (Changjiang Corporate Finance (HK) Limited)
3. How, Sze Ming (Southwest Securities (HK) Capital Limited)
4. Lo, Steven Wing Shing (Southwest Securities (HK) Capital Limited)
5. Tai, Alexander Kwok Leung
6. Wan, Joseph Jason (Dongxing Securities (Hong Kong) Company Limited)