

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.

Please refer to Annex 1.

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.

We agree to these tightening of the migration rules from the GEM to the Main Board only if the proposal in Question 1 above is not implemented. The proposals under Question 2 will act as a check and balance for admitting only quality GEM listed companies to the Main Board.

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.

This is an appropriate time period to assess the quality of GEM listing candidates, both financially and non financially.

This period is appropriate for GEM while that for the Main Board is 3 years.

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.

If the other proposals requiring listing committee approval for GEM listings and under Question 2 are implemented, applicants that could meet Main Board listing requirements would have little incentives to list on the GEM anyway. Accordingly, there is no need to make the change proposed in Question 4. This should remain a choice of the management.

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 financial requirements for listing on the GEM Board are already one of the highest amongst the second boards of international stock exchanges. If the threshold is increased in the current favourable economic environment, this may prove excessively high in times of adverse economic conditions. Lowering the increased threshold then may prove difficult, if not impossible.

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.

Please refer to the answer in Question 5.

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.

These changes could act as a check on the "shell companies" issue. Furthermore, GEM companies should be small companies with good growth prospect. These companies would need the controlling shareholders', who are usually the senior management, continuing involvement for a period after listing.

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.

The offering mechanism of GEM companies should be in line with that of Main Board companies. Mandatory public offering is an effective mechanism to encourage a diverse shareholding and fair trading immediately after listing. Furthermore, the public should have equal rights to subscribe for shares offered. Therefore, the offered shares should not only be available to places under a placing.

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.

GEM and Main Board should be in the same offering mechanism so as to encourage diverse shareholding and fair trading.

- (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.

Please refer to the answer in Question 9(a).

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.

Please refer to the answer in Question 6, provided no increase in minimum market capitalization, no increase in minimum public float.

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.

Profit requirement serves as an effective indicator of the past performance of a potential issuer, especially established / successful businesses which are the target of the Main Board. Furthermore, the profit requirement indicator is widely accepted in Main Boards in international stock exchanges.

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.

Please refer to the answer in Question 5 , the increase of listing threshold will make Main Board listing requirement excessively high when comparing to Main Boards in international stock exchanges and therefore discourage attractive issuer to list in Hong Kong.

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.

Please refer to the answer in Question 12, provided profit requirement remains unchanged, no change in minimum market capitalisation.

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.

Please refer to the answer in Question 13, provided no increase in minimum market capitalisation, no increase in minimum public float.

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.

Please refer to the answer in Question 7, these measures could act as a check on the listing of "shell companies" in contravention of the Exchange's suitability requirements.

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.

So far no incidence of listing shell companies not meeting with the Exchange's suitability requirement like that in GEM has been identified in Main Board, the proposed change is mainly to keep the same proportional distance between Main Board and GEM. GEM and Main Board are a cohesive public listing mechanism, accordingly any change in Main Board should be considered together with the GEM.

- End -

Annex 1

Questionnaire on review of the GEM and change to the GEM and Main Board Listing Rules

Q1.

This proposal will discourage small but high growth companies to seek a listing on GEM, thereby depriving the market with quality listing candidates, which will not be beneficial for the long term development of the GEM board.

Under another proposal of the consultation, GEM listing approval will be strengthened through involvement of listing committee. To go forward, for cases applying to migrate to the Main Board in which the major shareholders and businesses have remained the same since its listing, we see there is little point to require the appointment of sponsors and issuance of a full prospectus.