



中州國際融資有限公司

CENTRAL CHINA INTERNATIONAL CAPITAL LIMITED

STRICTLY PRIVATE AND CONFIDENTIAL

16 August 2017

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs,

Re: Consultation Paper on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules

Introduction

1. Launched in November 1999, GEM aimed to provide a capital formation platform for emerging companies and an alternative market to the Main Board. Following a consultation in 2007, GEM was re-positioned in July 2008 from an alternative board for emerging companies to acting as a “stepping stone” to the Main Board, and functioned largely as a second board to the Main Board.
2. We share the HKEx’ view that GEM plays a continuing role in our market as a listing and fund raising platform. However, after nine years of acting as the “stepping stone” to the Main Board, we agree that it is time that the HKEx reassessed GEM’s role in relation to its future development, and welcome publication of the consultation paper entitled *Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules issued by the HKEx* (the “**GEM CP**”) on 16 June 2017.
3. Having reviewed the GEM CP, we set out for the consideration of the HKEx and the Exchange the following comments in respect of the proposed changes in the Consultation Paper. All capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the GEM CP.

Proposed Changes to GEM’s Profile (Chapter 2 of the Consultation Paper)

Current requirements in brief

4. Under Paragraph 9A.02 of the Main Board Listing Rules, GEM issuers can



transfer to the Main Board without de-listing from GEM and to apply for a new listing on the Main Board, provided that they meet the Main Board listing requirements. Moreover, the Main Board Listing Rules provide that an issuer may only apply for a transfer from GEM to the Main Board if it has published and distributed one full financial year of financial statements after the date of its initial listing. GEM Transfer applicants are not required to engage a sponsor to conduct due diligence and issue a listing document under the GEM Streamlined Process.

HKEx's proposed changes and their rationale

5. The HKEx advanced two arguments in the GEM CP in support of its proposal that GEM should abandon the “stepping stone” role and be repositioned as a stand-alone board for small and mid-sized companies. The two arguments were: (i) the limited success of the “stepping stone” role; and (ii) the concern over recent criticisms of the GEM Streamlined Process (see paragraph 16 on page 28 of the GEM CP).
6. In respect of the alleged limited success of the GEM as a stepping stone to the Main Board, based on the figures provided by the HKEx in Table 1 on page 26 of the GEM CP, the rate of the GEM Transfers between the second half of 2008 (i.e. since the concept of “stepping stone” was introduced) and the end of December 2016 was on a decreasing trend, with a drop of approximately 4.5% over a period of 8.5 years, which was not an encouraging sign. The figures presented also show that the cap of 14 GEM Transfers in 2008(2nd half) and 2015 may be difficult to surpass (with only two successful GEM Transfers in 2012).
7. As for the criticisms of the GEM Streamlined Process, which was introduced on 1 July 2008 to allow GEM issuers to transfer to the Main Board provided that they can meet the Main Board admission requirements without the need to appoint a sponsor and issue a “prospectus-standard” listing document, the HKEx is concerned that the GEM Streamlined Process may provide an opportunity for regulatory arbitrage and potentially impacts the overall quality of the Hong Kong market.
8. According to the HKEx in paragraph 2 on page 23 of the GEM CP, GEM's lower admission requirements, compared with those of the Main Board, are being exploited by poorer quality companies to gain easy access to the Main Board by listing first on GEM, and by other companies which seek to profit from their position as listed shells. GEM's optional placing-only offering



mechanism and small minimum (100) public shareholder requirement at the time of listing may also have led to a high concentration of shareholders, illiquid shares and increased price volatility post listing.

9. We believe that such propositions by the HKEX need further qualification. The low rate of successful migration may be partly due to the quality of some GEM companies and/or the rate of improvement in financial performance and increase in business scale, so that they have not been able to meet the Profit Requirement within a short period of time. With reference to the regulatory arbitrage, it may apply to those GEM companies which have filed their listing applications before the implementation of the sponsor regime. However, GEM issuers, which have filed their listing applications under the current sponsor regime, have gone through a similar vigorous vetting process as their Main Board counterparts, and when they meet the Main Board listing requirements, they apply for migration to the Main Board as a matter of course. In practice, they comply with both set of rules under the GEM and Main Board as well as other rules and regulations under the current sponsor regime. We note that some GEM issuers take advantage of the timing by submitting their listing applications earlier and apply for migration when the time is ripe. If not, they wait until they are fully qualified for Main Board admission requirements and to file the listing applications before going through migration later on. We see no reason why such GEM issuers, by filing earlier applications to GEM and later migrating to the Main Board, should be penalised by being asked to incur considerable extra sums of money to re-do the listing exercise in just a few years' time given that their business models and shareholding structure remain unchanged. Interests of shareholders of those GEM issuers will also be adversely affected under the curtailed migration process proposed by the HKEx in the GEM CP.
10. The HKEx set out its last criticism of the GEM Streamlined Process in the following terms:

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.

11. In our view the HKEx's last criticism of the GEM Streamlined Process is not justified on the following two grounds. First, introduced in July 2008, the GEM Streamlined Process predated the sponsor regime by more than five years. The policy objective behind the introduction of the GEM Streamlined Process is to provide a fast track mechanism for qualified GEM issuers to transfer to the Main Board in an effort to fulfil GEM's designated "stepping stone" role. Why should this objective be thwarted by hurdles put up after the GEM Streamlined Process was implemented? Why should the GEM Streamlined Process be criticised for failing to comply with the objective of a regime created after its time?
12. Second, the sponsor regime is concerned with, among other things, the conduct of sponsors in meeting their responsibilities in connection with new listings.¹ However, the GEM Streamlined Process has got nothing to do with new listings as Rule 9A.02 of the Main Board Listing Rules allows GEM issuers to transfer to the Main Board without de-listing from GEM on the condition that they meet the Main Board admission requirements. Neither does Rule 9A.06 of the Main Board Listing Rules require a new listing application to the Main Board for GEM Transfer applicants. Accordingly, questions will be asked as to why the GEM Streamlined Process is required to be consistent with the objective of the sponsor regime which does not apply to it.
13. While we agree with the concerns expressed over GEM Transfer applicants which have changed their controlling shareholders and/or principal businesses after listing on GEM (approximately 37% of those successful GEM Transfer Applicants from 2013 to 2016 had this problem), we believe that the criticism that GEM Transfer applicants are not subject to a comprehensive due diligence process as those listed on the Main Board is too sweeping a claim made by the HKEx. There are of course some successful GEM Transfer applicants which were listed on GEM after the sponsor regime was implemented. For example, it was said in paragraph 14 on page 26 of the GEM CP that 90% of the 20 successful GEM Transfer Applicants in 2015 and 2016 were listed on GEM for an average of two years before their transfers. For those successful GEM Transfer Applicants, particularly those which achieved GEM Transfers in 2016, they would have undergone a due diligence vetting process as detailed and comprehensive as their Main Board counterparts before they were allowed

¹ See *Consultation on Regulation of Sponsors*, May 2012, paragraph 9 on page 4 therein.



to list on GEM. If the GEM Transfer applicants change their substantial shareholding after listing before the migration application, then prima facie they cannot meet Rule 8.05 of the Main Board Listing Rules and they have to hold back the GEM Transfer applications.

14. In order to improve the quality of GEM Transfer applicants, the HKEx proposed in the GEM CP that they should achieve the following before they can be considered as candidates for 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).
15. According to the HKEx in paragraph 13 on page 26 of the GEM CP, between 2003 and 2016, 99 out of the 137 GEM Transfer Applicants were successful. The successful 99 Transfer applicants were listed on GEM for an average of 5.4 years. From 2015 to 2016, there were 20 successful GEM Transfer Applicants and 99% of them (i.e. 18) were listed on GEM for an average of two years before their transfers.
16. Based on these figures, we agree that the proposed requirement for GEM Transfer applicants to publish and distribute at least two full financial years of audited statements after a GEM listing is not excessive and unduly disruptive to the market. It will ensure that duly qualified GEM applicants to apply for migration. If paragraph 13(a) is accepted, it is inevitable that the duration that the GEM Transfer applicant is not subject to any disciplinary investigation would be increased from 12 months to 24 months.
17. For the above reasons (apart from the views expressed in paragraphs 9-12), we **disagree with Consultation Question 1 as it would be unfair to those GEM companies which have submitted their listing applications under the current sponsor regime and agree with Consultation Question 2.**

Migration requirements (Chapter 6 of the Consultation Paper)

18. Given that there are GEM Transfer applications currently being processed by the Exchange, it is right for the HKEx to set out transitional arrangements for



中州國際融資有限公司

CENTRAL CHINA INTERNATIONAL CAPITAL LIMITED

GEM Transfer applicants (if the HKEx's proposed reforms to GEM are accepted by the market) and the migration requirements after the transitional period ends.

19. The HKEx proposed to divide the transitional period into three distinct phases:
 - (a) from the date of the Consultation Paper to the Amendment Effective Date. Given that the GEM CP was released on 16 June 2017 and that the HKEx estimated that the Amendment Effective Date to be approximately six months from the date of the GEM CP, i.e. 16 December 2017. Accordingly, we are looking at a 6-month period from 16 June 2017 to 16 December 2017. For convenience, we will call it the First Period;
 - (b) Transitional Period – a period of three years from the Amendment Effective Date – from 17 December 2017 to 17 December 2020; and
 - (c) after the end of the Transitional Period – from 18 December 2020 onwards. For convenience, we will call it the Third Period.

20. In respect of those GEM Transfer applications submitted by Eligible Issuers in
 - (a) the First Period (i.e. from 16 June 2017 to 16 December 2017),
 - (i) the current GEM Streamlined Process applies to them; and
 - (ii) eligibility for Main Board Listing to be determined as per the Main Board Listing Rules in force as at 16 June 2017.

 - (b) the Transitional Period (i.e. from 17 December 2017 to 17 December 2020),
 - (i) if the GEM Transfer applicants
 1. have changed their principal businesses and/or controlling shareholders since listing, they are required to appoint a sponsor to conduct due diligence and publish a “prospectus standard” listing document in relation to their GEM Transfers; or
 2. have not changed their principal businesses and/or controlling shareholders since listing, they are required to prepare a GEM Transfer announcement in connection with their GEM Transfers and appoint a sponsor to conduct due diligence in respect of the applicant's



activities during the most recent full financial year and up to the date of the GEM Transfer announcement.

- (c) the Third Period (i.e. from 18 December 2020 onwards)
 - (i) All GEM Transfer Applications will be processed under the then applicable and revised Main Board Listing Rules.

21. In our view, there are at least four things in respect of the above-mentioned transitional arrangements which deserve the HKEx's attention. Firstly, we believe that the First Period should be as short as possible or should be done away with completely. This is because its existence is inconsistent with the current thinking of the Exchange in respect of GEM Transfer. The only exception, in our view, is that those GEM Transfer applicants which have lodged their applications with the Exchange before the date of the release of Consultation Paper on 16 June 2017, the GEM Streamlined Process should still apply to them. We do not believe that the number of such GEM Transfer applications is high.
22. Secondly, if GEM Transfer applicants (i) lodged their applications after 16 June 2017; (ii) were processed or listed before the implementation of the sponsor regime; and (iii) have not changed their businesses and/or controlling shareholders since listing on GEM, they should not be afforded the benefit of the GEM Streamlined Process. Instead, they should be required to prepare a GEM Transfer announcement and appoint a sponsor to conduct due diligence in respect of the applicants' activities under the current sponsor regime to ensure what is disclosed in the GEM Transfer announcement is accurate, complete and meet the standard of the current sponsor regime. In the event that such GEM Transfer applicants have changed their business and/or controlling shareholders since listing on GEM, they should be required to appoint a sponsor to conduct due diligence and publish a "prospectus standard" listing document as if they were new listing applicants to the Main Board.
23. Thirdly, in respect of the requirement for GEM Transfer applicants in the Transitional Period which have changed their principal business activities and/or controlling shareholders since listing to appoint a sponsor to conduct due diligence and publish a "prospectus standard" listing document, we consider that the existing RTO provisions under the Listing Rules are already sufficient to address this problem, and there is no need for a new set of rules to be implemented for this purpose.



24. Fourthly, for those GEM Transfer applicants which (i) were listed on GEM after the implementation of the sponsor regime having gone through the same rigorous vetting process as their Main Board counterparts under the current sponsor regime; and (ii) have not changed their principal business activities and/or controlling shareholders since listing, we are strongly of the view that they should not be required to incur the extra costs of appointing a sponsor to again conduct due diligence on their business activities for the most recent full financial year as such information and updates would already be in the public domain through the GEM Transfer applicants' periodic publications such as announcements and financial reports. It would definitely be unduly burdensome for a GEM Transfer applicant which has not changed its business and/or substantial shareholders since listing and has been in compliance with the GEM Listing Rules and relevant requirements under the SFO, including the Inside Information Guidelines, being required to undergo another round of vigorous vetting.
25. Finally, the GEM CP said that all GEM Transfer Applicants in the Third Period would be processed under the revised Main Board Listing Rules. We are of the view that the Exchange should set out clearly what those proposed revised Main Board Listing Rules are. It has been argued that GEM has been dominated by (small-to-medium size) "old economy" enterprises (with companies from the so-called New Economy industries made up only about 3% of the total market capitalization of the companies listed on the Exchange in the past 10 years – see Figure 3 on page 12 of the GEM CP), and that GEM's fund-raising function for growth companies has been relatively limited. What has been ignored, or disregarded, is that small-to-medium size companies not only from Hong Kong but also mainland China and other jurisdictions are interested in the platform that GEM provides, not just for initial listing, but also as a pathway over time to listing on the Main Board. If the HKEx were to curtail the "stepping stone" role, as seems to be suggested in the GEM CP, by making the GEM Transfer procedures difficult to achieve, e.g. requiring the appointment of a sponsor to conduct due diligence checks and produce a "prospectus-standard" listing documents (questions might be asked as to whether all these procedures are necessary given that the vetting process for GEM listing is already very rigorous), or even abandon the "stepping stone" role altogether, it would further adversely affect the precarious position of GEM issuers as the liquidity of GEM companies has been low. GEM's attractiveness as a listing venue for small-to-medium sized companies with growth potential would under such a scenario further diminish because there would be little opportunity for such companies to advance to the Main Board in the end. For these reasons, we believe that the "stepping stone"



role for GEM issuers should be retained, and that the GEM Transfer procedures in the Third Period should mirror what we propose in above paragraphs 22-24.

26. To conclude, we are of the view that it is time for the regulators to come to a clear decision on how to position GEM in the future. To curtail the migration system will only harm rather than help the GEM market to develop and flourish. At present the only distinction between GEM companies and Main Board companies is their size rather than industry sector or growth angle. If these second board companies are being deprived of the opportunity to move to a bigger platform for future fund raising or development, we see little prospects for them. In short, the Exchange should fine tune the migration process to ensure better quality companies to list on GEM and pave the way for these companies to migrate to the Main Board in the future.

Admission requirements and delisting mechanism (Chapter 3 of the Consultation Paper)

Current requirements in brief

27. A GEM Transfer applicant at the time of initial listing on GEM, is currently required to have had a trading record of at least two financial years and positive cash flow from operating activities in the ordinary course of business of at least HK\$20 million for that two-year period. The applicant's expected market capitalisation at the time of listing on GEM is required to be at least HK\$100 million while the expected market capitalisation of its publicly-held equity securities should be at least HK\$30 million at the time of listing.
28. Moreover, The GEM Listing Rules impose a post-IPO lock-up on the controlling shareholders of a listing applicant which prevents them from disposing of their equity interest: (a) within six months from the date of listing; and (b) within the next six months if the disposal would result in them ceasing to be controlling shareholders.

Track record requirement

29. In the previous paragraphs we have argued consistently that in view that GEM is the second board to the Main Board, the "stepping stone" role should be retained. However, if GEM were to abandon the "stepping stone" role and recast itself as a listing and fund raising platform for small to mid-sized companies, we agreed that its track record requirement should not be increased



to such an extent as to deny small and mid-sized companies' access to this platform. Since 79% of Selected GEM Issuers had difficulty in meeting the Profit Requirement one year after listing (see paragraph 7(b) on page 31 of the GEM CP), we are of the view that current 2-year track record period for GEM Listing application should be retained.

30. We do not believe it necessary for the Exchange to require a GEM listing applicant which possesses a three financial years' record and meets Profit Requirement to apply for listing on the Main Board. We should leave such decision to the issuers.

Cashflow Requirement

31. We agree that it is appropriate to use cash flow as an indicator of business viability as compared to, say, the profit and revenue tests for Main Board companies. The meaning of cash flow, as an accounting concept, is easy to understand and it is also more difficult to be manoeuvred than net profit. Since 70% of Selected GEM Issuers recorded aggregate operating cash flow before changes in working capital of HK\$30 million and above (i.e. at least 1.5 times the Cashflow Requirement), we believe that this increase in the Cashflow Requirement from HK\$20 million to HK\$30 million would help to ensure better quality companies to list on the GEM market.

Minimum market capitalisation requirement

32. We agree with the HKEx's observation that the low minimum market capitalisation requirement at the time of listing (i.e. HK\$100 million) could be one of the main causes for the concerns expressed over the shareholdings of many GEM issuers (i.e. lack of an open market, shareholdings concentrated among a small group shareholders with shares not freely tradeable on the Exchange, limited supply of shares cause sharp movements in share price of such GEM issuers – see paragraph 13 on page 44 of the GEM CP).
33. Since 88% of Selected GEM Issuers had respective market capitalisations of HK\$150 million or above at the time of listing, and with a view to improving the quality of GEM issuers, we are of the view that this increase in the minimum market capitalisation at the time of listing from HK\$100 million to HK\$150 million or above would not be unduly burdensome on GEM listing applicants.



Lock-up requirement

34. We agree that the duration of the GEM post-IPO lock up period in respect of issuers' controlling shareholders should be increased to (i) allow them to demonstrate greater commitment to the issuers; and (ii) show that they are not listing their companies due to the perceived premium arising from the listed status of those companies.
35. It is noted in paragraph 30 on page 36 of the GEM CP that of the 79 GEM applications submitted since the publication of the 2016 Suitability Guidance Letter on 3 June 2016 and up to 31 December 2016, 44% of these GEM applicants' controlling shareholders have volunteered to lock up their equity interests in the GEM applicant for a longer period than the GEM Listing Rules requirement, ranging between 15 months and four and a half years post listing.
36. Accordingly, we agree that it would not be unduly onerous to increase the GEM post-listing lock-up period from six months to one year in both limbs of the lock-up requirement given that the increase of only six months is within the range from 15 months to 4.5 years. We also note in passing that there are substantial shareholders of the GEM issuers who have voluntarily extended their lock-up periods up to 24/36 months in the last few months.
37. For the above reasons, we **agree** with **Consultation Questions 3, 4, 5, 6 and 7**.

Open market requirement (Chapter 4 of the Consultation Paper)

Current requirements in brief

38. Rule 11.23 of the GEM Listing Rules requires that there must be an open market in the shares for which listing is sought. Among other things, an adequate spread of holders of the listed securities is required at the time of listing. The number of holders depends on the size and nature of the issue but, as a guideline, there should be at least 100 public shareholders (including those who hold equity securities through the Central Clearing and Settlement System). No more than 50% of the publicly-held securities at the time of listing can be beneficially owned by the three largest public shareholders. At least 25% of the issuer's total number of issued shares must be held by the public at the time of listing and the class of securities for which listing is sought must not be less than 15% of the issuer's total number of issued shares, having an expected market capitalisation at the time of listing of not less than HK\$30 million.



39. There is currently no mandatory public offering mechanism for GEM listing applicants under the current regime and applicants may conduct placing-only offerings or combining a placing and public offering. Where GEM securities are to be placed, there are prohibitions on preferential terms or treatment as to price or otherwise being given to any placee unless adequate disclosure of such terms or treatment is made in the listing document.

Introduction of mandatory public offer tranche of at least 10% for GEM applicants

40. It was observed in the 2017 Joint Statement that before the issue of the 2017 Joint Statement, almost all GEM IPOs were conducted by way of placing only (e.g. out of a total of 49 GEM IPOs in 2015 and in the first half of 2016, 48 GEM IPOs were conducted by way of placing only). This resulted in many listed GEM stocks having highly concentrated shareholdings and a small shareholder base. On average, in the GEM IPOs listed during 2015 and the first half of 2016, the top 25 placees took up 96% of the shares offered for placing and the average number of placees for the entire issue was 135.
41. It was further observed in the 2017 Joint Statement that in a number of GEM placings, (a) the allocation of a substantial majority of the offered shares were attributable to a small proportion of the placing agents involved in the transaction, who placed those shares to a small number of placees, while (b) the remainder of the offered shares were placed in small quantities (usually one or two board lots) to a large number of placees. While the number of placees exceeded 100, the final allocation was substantially similar in effect to a placing of the offered shares only to the top placees and resulted in a high concentration of shareholdings among the top placees. In addition, the SFC has observed that a handful of investors repeatedly appeared as the top placees in otherwise unconnected GEM IPOs.
42. In Table 5 on page 46 of the GEM CP, the liquidity level between Selected GEM Issuers and Small Cap MB Issuers was compared. Based on the average daily trading volume as a percentage of total issued capital over one day, one week and one month from listing, it was found that Selected GEM Issuers had lower liquidity levels compared to Small Cap MB Issuers by 13% on average.
43. We note that in the aftermath of the intervention in January 2017 by the SFC to discourage the use of a “placing only” offering mechanism, there was a substantial shift in the attitude of issuers and sponsoring investment banks towards adopting a “public offer” approach to GEM listing, with most new



issues in the months from February to May adopting this approach which in general resulted in a wider spread of holders (which was an objective of the regulatory bodies). We agree to the proposal of requiring a mandatory public offer mechanism of at least 10% for GEM applicants to allocate shares to retail investors (in line with the approach used for Main Board listings) and consider that this will facilitate the establishment of a broader shareholder base for GEM issuers than under the previous placing-only offering mechanism, and will in turn help to reduce the historic problems of high shareholding concentration, lack of free trading of shares and low liquidity.

Alignment of GEM and Main Board requirements

44. In order to increase the level of safeguards to GEM shareholders, we agree with the HKEx's proposal to align the GEM requirement on placing to core connected persons, connected clients and existing shareholders, and their respective close associates with that of the Main Board. Given that there have been insignificant placings by Selected GEM Issuers to their respective core connected persons, connected clients, employees, existing shareholders or their respective close associates (see paragraph 19 on page 47 of the GEM CP), this proposal, in our view, would not be unduly burdensome to GEM applicants.
45. Since a mandatory public offer tranche of at least 10% is proposed for GEM listings, we agree that the allocation of offer shares between public and placing tranches and the clawback mechanism for GEM should be consistent with that of the Main Board Listing Rules (see Practice Note 18).

Increase minimum public float value of securities

46. In line with the proposed increase in the minimum market capitalisation requirement for GEM applicants from HK\$100 million to HK\$150 million, we agree that a proportional increase of 15% in the minimum public float value of securities to be listed on GEM from HK\$30 million to HK\$45 million is acceptable.
47. For the above reasons, we **agree** with **Consultation Questions 8, 9 and 10**.

Proposed changes to Main Board requirements (Chapter 5 of the Consultation Paper)



中州國際融資有限公司

CENTRAL CHINA INTERNATIONAL CAPITAL LIMITED

48. If the proposals in the GEM CP are adopted, the GEM listing requirements will be closer to or exceed the equivalent requirements of the Main Board. The HKEx therefore proposed to make certain changes to the Main Board requirements to distinguish the Main Board from GEM.

Current requirements in brief

49. The (long-standing) Profit Requirement states that an applicant applying to list on the Main Board must have HK\$30 million aggregate profit in the first two years of its 3-year track record period and HK\$20 million in the final year. A listing applicant that chooses to meet the profit test is also required to have a minimum market capitalisation at listing of HK\$200 million.
50. A listing applicant is currently required to ensure that there is an open market in the securities for which listing is sought, which will normally mean that at least 25% of the issuer's total issued shares should be held by the public. The minimum market capitalisation at the time of listing of the publicly held securities must be at least HK\$50 million (25% of the current minimum market capitalisation requirement of HK\$200 million).
51. The existing post-IPO lock-up requirement is the same as the GEM's, i.e. controlling shareholders of a listing applicant are restricted from disposing of their equity interest: (a) within six months from the date of listing; and (b) within the next six months if they would cease to be controlling shareholders as a result.

Profit Requirement

52. Having reviewed Table 7 on page 55 of the GEM CP, which compares the minimum profit requirements of Selected Overseas Main Markets and the Main Board, we share the HKEx's view that the Profit Requirement still compares favourably with those of the Selected Overseas Main Markets and is higher than most markets (including the United States) in the last year of a track record period. We agree that there is no need to change the level of profit under the Profit Requirement.

Average market capitalisation

53. If the minimum market capitalisation at listing for GEM applicants is raised from HK\$100 million to HK\$150 million, which approximates the Main Board requirement of HK\$200 million, there is arguably a need to consider



raising the minimum market capitalisation requirement for Main Board listing applicants in order to retain the distinction between GEM (for small and mid-sized companies) and the Main Board (for larger companies).

54. The perceived need to increase the minimum market capitalisation requirement of the Main Board is fortified by the fact that 71% of Selected GEM Issuers could meet the minimum market capitalisation the Main Board (i.e. HK\$200 million) (see Chart 5 on page 58 of the GEM CP). In fact, the average market capitalisation of Selected GEM Issuers at listing (excluding those with significantly large market capitalisation of HK\$1,000 million or more at the time of listing) was HK\$274 million, 37% above the minimum HK\$200 million level.
55. However, the choice of HK\$500 million as the proposed minimum market capitalisation for the Main Board, in our view, should be reconsidered since only 9% of Selected GEM Issuers would have been able to meet this market capitalisation requirement, compared with 71% of Selected GEM Issuers that could meet the current HK\$200 million requirement. The HK\$500 million mark would put the Main Board further out of the reach of GEM companies who aspire to meet the Profit Requirement and are already meeting the current Main Board current minimum market capitalization requirement. A lower range of, say, between HK\$350 million and HK\$400 million may be considered.

Public float value requirement

56. With the proposed increase of minimum market capitalisation at listing from HK\$200 million to HK500 million for Main Board applicants, we agree that the minimum public float value of securities will need to be increased proportionally from HK\$50 million to HK\$125 million (25% of the proposed HK\$500 million minimum market capitalisation requirement).

Post-IPO lock-up requirement

57. The current post-IPO lock up requirement is the same for both Main Board and GEM applicants. If it is accepted that there is a need to increase the lock-up requirements for GEM applicants, we consider that there is a corresponding need to increase the lock-up requirement for Main Board applicants to the same extent.



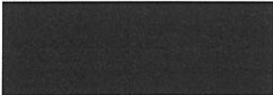
中州國際融資有限公司

CENTRAL CHINA INTERNATIONAL CAPITAL LIMITED

Independent Main Board proposals

58. Given that the Main Board eligibility requirements have not been the subject of substantial public consultation since 2002 (see paragraph 37 on page 64 of the GEM CP) and (possible) substantial changes to GEM requirements are on the horizon, we agree that the market should be given an opportunity to independently review proposed changes for the Main Board eligibility requirements irrespective of the outcome of the proposals for GEM.
59. For the above reasons, we **agree** with **Consultation Questions 11, 12, 13, 14, 15 and 16.**

Yours faithfully,
For and on behalf of
Central China International Capital Limited


Billy C.W. Cheung
General Manager