

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.

We do not agree with the removal of the GEM Streamlined Process for GEM Transfers. When an applicant first applied as a GEM listing applicant, it would have engaged a sponsor to conduct due diligence and issued a "prospectus-standard" listing document. By removing the GEM Streamlined Process and re-imposing the requirement to appoint sponsor and issue a prospectus-standard listing document, this would appear to be discouraging the GEM listed companies to continue to grow and expand such that they could transfer to the Main Board one day under the GEM Streamlined Process. The GEM listed companies would have already incurred substantial expenses in engaging sponsors and professional advisers when it first listed on GEM, and re-imposing all these requirements appear to be not only discouraging but unfair to these GEM listed companies. This also devalues the purpose of having a GEM board in the first place to provide a platform for small to mid sized companies to nurture and grow, as the proposal of removing the GEM Streamlined Process reimposes the arduous listing requirements when the companies qualify for the Main Board. It will limit the role of GEM which may further decrease the attractiveness of a listing on GEM.

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.

In view of the recent market concerns of the poor quality of GEM-listed issuers, requiring all GEM Transfer applicants to have published and distributed at least two full financial years of financial statements after their GEM listing and not been subject to any disciplinary investigations by the Exchange for 24 months before they can be considered for a GEM Transfer will provide more comfort to investors on the quality of the GEM Transfer applicants. The statistics as provided by the Exchange also illustrate that such requirement will not be unduly burdensome as the GEM Transfer applicants that successfully transferred to the Main Board were listed for an average of 5.4 years before their transfers.

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.

We agree that given the targeted companies of GEM are small to mid-sized companies, they are not expected to be as well established as Main Board applicants. If the current track record requirement is to be increased, it will defeat the purpose of GEM of providing a listing platform for small to mid-sized companies that are relatively new start-up companies.

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

☒ Yes

☐ No

Please give reasons for your views.

We agree to retain the current practice of requiring GEM applicants to justify their decisions to list on GEM instead of the Main Board when there is indication that the applicant can meet the Main Board admission requirements and be eligible to list on the Main Board instead. While it is not mandatory that an applicant who fulfils the Main Board admission requirements has to list on the Main Board, it is critical that the Exchange should reserve the right to refuse an application for listing on GEM if it believes that the applicant could meet the eligibility requirements of the Main Board. This is to deter the applicants from abusing certain of the more relaxed GEM listing requirements (e.g. the lower number of shareholder requirements).

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.

We agree that cash flow is a good indicator of business viability, especially for small and mid-sized companies where cash flow has a more important role to play, and where from an accounting perspective there maybe technical reasons why they have not yet generated sufficient accounting profits. Moreover, we believe that increasing the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million will have a positive impact on ensuring the quality of GEM issuers.

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

☐ Yes

☒ No

Please give reasons for your views.

The minimum market capitalisation requirement of GEM as compared to other Selected Overseas Junior Exchanges is the second highest one. We believe that the current minimum market capitalisation requirement is reasonable. The concern that the shares of GEM issuers lack an open market and are concentrated among a small group of shareholders can be appropriately dealt with by other proposals such as the introduction of a mandatory public offering mechanism .

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

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

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

☐ Yes

☒ No

Please give reasons for your views.

The post-IPO lock-up requirement for GEM is on par with the majority of the other Selected Overseas Junior Exchanges. Taking it to an extreme, some overseas junior exchanges, for instance, NASDAQCX and Mothers have no such requirement of post-IPO lock-up. We think that the current post-IPO lock-up requirement is reasonable and sufficient for the controlling shareholders to indicate their commitment to the company at the time of listing. The underlying rationale for introducing WVR structures and the New Board as put forward by the Exchange in the Concept Paper is to increase our competitiveness in attracting high quality listing applicants to list on the Exchange, but this proposal of increasing the post-IPO lock-up requirement seems to be going against such rationale by deterring founders and VC/PE investors from listing here as the proposed post-IPO lock-up requirement restricts them from exiting.

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.

We agree with the Exchange's view that the sharp movements in share prices of GEM issuers are mainly caused by the lack of an open market and with a highly concentrated group of shareholders. A mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs will have a positive impact on improving the liquidity of shares on GEM board and preventing GEM applicants from arbitrarily manufacturing its shareholder base and manipulating the share price.

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

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

☒ Yes

☐ No

Please give reasons for your views.

The issue of preferential treatment is more prevalent in GEM issuers where it is often perceived that such GEM issuers may have manufactured their own shareholder base prior to listing by allocating shares to placees under their control. In order to address the issue of preferential treatment and the arbitral manufacturing of own shareholder base and hence manipulating the share price, we believe that the Exchange should align the GEM Listing Rules on placing to core connected persons, connected clients and existing shareholders, and their respective close associates with that of the Main Board.

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

☒ Yes

☐ No

Please give reasons for your views.

The clawback mechanism is an important feature for the Main Board as it ensures that that the issuer and underwriters do not excessively favour institutional investors at the expense of public investors. As there have been market concerns over market manipulation of GEM issuers and also highly concentrated shareholder base, we believe that introducing the clawback mechanism to GEM will be helpful in addressing some of those market concerns.

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.

As stated in our answers to question 6, we do not agree with increasing the minimum market capitalisation requirement for GEM issuers. In line with our answers to question 6, we do not agree with the proposal to increase the minimum public float value of securities from HK\$30 million to HK\$45 million.

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.

We agree with continuing to use the Profit Requirement to determine eligibility to list on the Main Board. Profit Requirement is generally a good indicator of a listing applicant's performance and its future profit indicator, and it is also commonly used on other comparable exchanges to determine eligibility.

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

☒ Yes

☐ No

Please give reasons for your views.

The current level of profit under the Profit Requirement is on a par with the majority of the Selected Overseas Main Markets, and it is higher than most markets (including the United States) in the last year of a track record period, therefore, we are of the view that increasing the current level of profit will make it unduly burdensome on the Main Board applicants.

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.

We do not agree with the proposal to increase the minimum market capitalisation requirement for Main Board applicants from at least HK\$200 million to at least HK\$500 million. As compared to the other Selected Overseas Main Markets, the minimum market capitalisation requirement for Main Board applicants is significantly higher than ASX, FCA and SSE, but substantially lower than that of Nasdaq Global Select Market, NYSE and SGX. As of now, it is ranked number 4 out of the 7 Selected Overseas Main Markets (counting from highest to lowest) and its position as ranked number 4 will remain even if we were to increase the minimum market capitalisation requirement to HK\$500 million. The size of companies for each market cannot be directly comparable with each other, for instance, the size of companies listed in the US is often much bigger than those listed in Asia markets. One of the underlying purposes of launching the Concept Paper and this consultation paper is to increase the competitiveness of the Hong Kong market in attracting companies to be listed on the Exchange, increasing the minimum market capitalisation requirement will be contradicting this purpose as indicated in table 8 of this consultation paper that 13% of applicants will be excluded if the minimum market capitalisation requirement increases to at least HK\$500 million, 13% is not a small figure and this will have a negative impact on the number of applicants to be listed on the Main Board. Moreover, market capitalization is also subject to market conditions and factors beyond the issuer's control including the price multiple at which it is priced at, and which may not necessarily absolutely reflect an issuer's attractiveness as an investment proposition

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.

As stated in our answers to question 13, we do not agree with increasing the minimum market capitalisation requirement for Main Board issuers. In line with our answers to question 13, we do not agree with the proposal to increase the minimum public float value of securities from HK\$50 million to HK\$125 million.

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.

Same as the reasons as provided in our answers to question 7, we do not agree with increasing the post-IPO lock-up requirement. We also agree that the Main Board applicants are less likely to have the characteristics identified in the 2016 Suitability Guidance Letter and therefore we do not think it is appropriate to extend the post-IPO lock-up requirements for Main Board applicants.

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.

We agree that since the Main Board eligibility requirements have not been the subject of public consultation since 2002, and given the evolving market nature and the changes in the market landscape for the last 15 years, we agree that the proposals for the Main Board should be considered independently irrespective of the outcome of the proposals for GEM.

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