

## 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 consider that the removal of the GEM Streamlined Process for GEM Transfers would be costly for eligible GEM issuers to apply for a listing on the Main Board, taking into account that these GEM issuers have been subject to the scrutiny of regulators since their GEM listing application (including the issuance of a prospectus and on-going compliance with the GEM Listing Rules) which are all no less stringent than the Main Board's standard.

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 consider that the current requirements for one full financial year as opposed to two full financial years for the publication of annual financial statements and 12 months as opposed to 24 months for no disciplinary investigations are sufficient, taking into account the fact that those GEM issuers applying for GEM Transfers would have demonstrated at least three full financial years of financial information and compliance record which are in line with the three-year track record requirement for all Main Board applicants.

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 with the Exchange's views in this regard.

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 with the Exchange's views in this regard.

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 with the Exchange's views in this regard.

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.

We agree with the Exchange's views in this regard.

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.

We agree with the Exchange's views in this regard.

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 views in this regard.

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.

We agree with the Exchange's views in this regard.

(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.

We agree with the Exchange's views in this regard.

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.

We agree with the Exchange's views in this regard.

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 the Exchange's views in this regard.

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.

We suggest that the Profit Requirement for the last financial year in the three-year track record period be raised from at least HK\$20 million to at least HK\$30 million in conjunction with our suggestion on the minimum market capitalisation in our response to Question 13.

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.

On the basis of the current minimum profit requirement for the last financial year in the three-year track record period being HK\$20 million as well as the current minimum market capitalisation at listing of HK\$200 million, the implied historical price-to-earnings ("PE") ratio is 10 times.

Based on the above implied historical PE ratio of 10 times as well as our suggestion on the Profit Requirement for the last financial year in the three-year track record period being raised to at least HK\$30 million in our response to Question 12, we consider that it is more reasonable to set the minimum market capitalisation at HK\$300 million primarily due to the fact that the historical PE ratio implied by the minimum market capitalisation of HK\$500 million would be 25 times if the the minimum profit requirement for the last financial year in the three-year track record period remains HK\$20 million, which is relatively high compared to 14.46 times implied by the Hang Seng Index as at 30 June 2017.

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.

On the basis of the minimum market capitalisation of HK\$300 million as suggested by us in our response to Question 13, the minimum public float value of securities for Main Board applicants is suggested to be revised proportionally to HK\$75 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.

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.

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