



STRICTLY PRIVATE AND CONFIDENTIAL

17 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**

SHINEWING (HK) CPA Limited ("SHINEWING") is pleased to respond to your Consultation Paper on review of the Growth Enterprise Market (GEM) and changes to the GEM and Main Board Listing Rules. Our detailed comments on it are set out in the questionnaire attached to this letter. We generally support most of the proposals but would like to highlight the following key concerns about the consultation paper.

**Overall Comment**

We fully support any initiatives which can enhance the quality of GEM and Main Board applicants and thus improve our market reputation and strengthen our position as international capital market. To efficiently address the issues of shell company creation and high shareholding concentration, we support increasing the market capitalization and increasing the minimum public float value of securities. Also, we generally agree with the proposal to increase the post-IPO lock-up requirement for both GEM and Main Board issuers. A longer commitment term demonstrated by the controlling shareholders can increase the investors' confidence.

### Concern on Repositioning of GEM

However, we think the proposal to reposition GEM as a stand-alone board and the proposed requirements of transfer of listing must be further examined. We have concern over the value of the existence of GEM if the "stepping stone" mechanism is removed. Also, appointing a sponsor and issuing a "prospectus-standard" listing document could largely increase the cost of those enterprises already listed on GEM and qualified for Main Board listing. To ensure the quality of Main Board companies which are transferred from GEM, we agree to impose the proposed requirements concerning publication and distribution of financial statements and disciplinary investigations.

We believe that most of the proposed revisions to GEM and Main Board Listing Rules can help to improve the quality of listing issuers and increase the competitiveness of Hong Kong market. However, thorough discussion on the repositioning of GEM and the GEM Streamlined Process for GEM Transfers should be further made to keep the attractiveness of each board.

Should you have any questions on the above comments, please do not hesitate to contact [REDACTED], [REDACTED].

Yours faithfully,

[REDACTED]

SHINEWING (HK) CPA Limited

## 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 generally agree that it is necessary to review the GEM and the GEM Listing Rules. However, appointing a sponsor and issuing a "prospectus-standard" listing document could largely increase the cost of those enterprises already listed on GEM and qualified for Main Board listing. Also, if the GEM is proposed to be repositioned as a stand-alone board by removing the "stepping stone" mechanism, we have concern over the value of the existence of 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.

We believe that this is a must to ensure the quality of proposed GEM companies to be transferred to 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.

We have no objection to the retention of the current track record requirement.

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.

It is the choice of listing applicants. As long as the internal control and corporate governance of the listing applicants meet the listing requirements, the decision to list on which board is a matter of applicants' choice.

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.

Increasing the Cashflow Requirement serves as a good quantitative indicator to understand the business performance for small and mid-sized companies. This could help to enhance the overall quality of GEM applicants.

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 proposal is reasonable, as most of the current GEM issuers have met the existing minimum market capitalization requirement. We believe that the proposal would help to increase the "shell-making" costs and significantly reduce such activities on GEM.

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 generally agree with the proposal to increase the post-IPO lock-up requirement. Requiring controlling shareholders to have a longer commitment period to the applicant could help to address the market concerns over the creation of shell companies.

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.

No comments.

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.

No comments.

(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.

No comments.

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 proposal to increase the minimum public float value of securities, which align with the proposal to increase the minimum market capitalization of GEM issuers. We believe that the proposal could be an effective measure to address the issue of high shareholding concentration.

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 is a useful indicator of the applicant's business performance and future profitability for determining the listing 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.

We agree to maintain the current level of profit in order to keep the competitiveness of Hong Kong among all other stock markets.

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 agree to increase the minimum capitalization requirement to not more than HK\$400 million.

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.

We principally agree with the proposal to proportionately increase the minimum public float value of securities for Main Board applicants. However, we have the concern that the proposed minimum value might pose greater difficulties for applicants to meet the requirements.



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.

We generally agree with the proposal to increase the post-IPO lock-up requirement for Main Board issuers to ensure a longer commitment term demonstrated by the controlling shareholders, which is also in line with the corresponding proposal for GEM issuers.

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 have no objection. The proposals for the Main Board could be considered independently regardless of the outcome of the proposals for GEM.

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