

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 prefer keeping a streamline process for GEM transfers, on the basis that there is a logical linkage between GEM and Main Board given that GEM caters for small to mid-sized companies while Main Board caters for more established companies. When those GEM companies grow and mature, they may become more established companies that can fulfill the listing requirements of Main Board.

We support the requirement to appoint a sponsor to conduct due diligence for GEM transfers and to advise the transfer applicant through the Main Board listing process. Nevertheless, we consider that a “prospectus-standard” listing document for GEM transfer applications may not be necessary having considered that GEM companies have published a prospectus when they first listed, and under the Listing Rules they would need to publish financial information quarterly and update the market on any event that have material impact to their business. The costs for producing a “prospectus-standard” listing document would create large financial burden to those GEM companies and may not be in the interests of the shareholders as a whole.

On the same token, we suggest to adopt a delisting mechanism for non-performing GEM companies.

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 are in support of this proposal with a view to maintaining investors confidence in the quality of 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 consider that having a two-year track record is a minimum for any company to demonstrate its viability to justify a listing status, even for a GEM applicant.

The Exchange may also consider to limit the cash flow criteria to those GEM applicants whose industries and business performance can better reflected in cash flow / EBITDA rather than profit.

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 think that it is a commercial decision in this aspect.

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 consider that the increase in threshold can better attract or increase the calibre of potential 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.

For the same reason as in Q5.

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 consider that imposing a longer lock up period for GEM issuers is justifiable for the reason that it can incentivise controlling shareholders to show a longer commitment in its business.

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 consider the % of mandatory public offering can actually be higher, say 25%, given the proposed increase in minimum offer size for GEM from HK\$30 million to \$45 million only.

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 consider that alignment of various rule requirements (besides listing eligibility) between Main Board and GEM rules is appropriate. Imposing Appendix 6 requirements to GEM may also help avoiding concentration of shareholdings in a handful of connected persons.

(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.

There should be proper clawback mechanism in place following the introduction of public tranche requirement to GEM (see Q8).

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.

This is in line with the increased market capitalisation (see Q6).

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.

Main Board issuers are expected to be mature companies and be able to demonstrate its long term viability and profit generating ability. Profit Requirement is the most objective criteria to prove that an applicant is able to meet such expectation.

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 consider the current level of minimum profit requirement to be appropriate.

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.

For the same reasons as in Q5.

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 are generally in agreement for an increase but not sure the threshold should be raised to HK\$125 million in one go.

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 consider the current lock up period for Main Board issuers to be appropriate.

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.

They are very different boards and should be looked at independently from regulatory angle.

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