

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.

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.

To align with the re-positioning of GEM as a stand-alone board and the removal of streamline process, the MB listing requirements and vetting standard (including, without limitation, trading record requirements, minimum profit requirements, the new market capitalization requirements, dealing with historical non-compliances and overall suitability of listing) should be applied to all MB listing applicants without regard to whether it is a first-time applicant or is already listed on GEM or New Board PREMIUM.

An additional waiting period requirement on GEM listed companies applying for MB listing should not be necessary, as such GEM listed companies should be evaluated and vetted based on the full MB listing requirements (as if it is a first-time listing applicant), including minimum trading record of 3 years and minimum profit requirements. Imposing an additional waiting period only on GEM listed companies means they are being isolated and penalized by putting more onerous requirements on them as compared to first-time applicants or those intending to de-list from other recognized stock exchanges and come to HK for MB listing.

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.

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 should clarify that MB admission requirements include not only trading record and minimum profit requirement but also the proposed minimum market capitalization requirement. Otherwise there could be cases of anomaly where an applicant with business in relatively low market valuation industry but with profitability exceeding the MB minimum profit requirements would be penalized for having to justify extensively why it considers a GEM listing instead of MB listing by virtue of its lower valuation and market capitalization. On the other hand, companies of significantly smaller size that cannot satisfy the MB minimum profit requirement will enjoy the clarity of straightly applying for GEM and not subject to extensive queries.

The proposed removal of GEM to MB streamline / migration mechanism should put a GEM listed company in the same position as a first-time applicant applying for a MB listing, where both are to be subject to the same set of listing requirements and standard of vetting. On the other hand, the proposed alignment of share offer mechanism between GEM and MB (that is, both requiring to have HKPO and both to comply with restrictions on placement with connected persons) should deter applicants from cherry-picking a listing venue to avoid a more restrictive share offer mechanism. In this respect, an applicant should be given full autonomy to decide which board it considers better fitting for its business and funding pursuits, and should not be put to justify its choice of one board over another, even if it fulfills both.

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.

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.

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.

While generally OK with the proposal, one may also consider the flip side of the coin that extending the controlling shareholder's lock-up may send an unintended signal to the market that only a portion of the overall share capital will be freely trading for an even more extended period of time, which may attract other unwanted market conducts.

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.

If GEM is to be re-positioned as a stand-alone listing venue for smaller cap companies where MB for larger cap companies, then aligning the HKPO requirement for both MB and GEM will provide consistency of listing mechanism between the two boards.

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.

If HKPO requirement is to be aligned between MB and GEM, it is reasonable to also align the related placing tranche requirements for MB and GEM for consistency purpose.

(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.

Similar to #9 above.

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.

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.

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.

Regardless of the level of profit requirement, the adoption of minimum market cap as one of the basic listing requirement is of some concern. As market cap is ultimately very much influenced by valuation metrics and capital market conditions from time to time, a sudden downturn on market sentiment or sector valuation may require underwriters and listing applicant to downward adjust its valuation to ensure a successful launch. The adoption of minimum market cap as basic listing requirement would inevitably take away such flexibility of adjusting company valuation in times of sudden downward market correction, resulting in a practically forced-upon failed launch.

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.

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.

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.

See also response #9 above.

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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