

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 agree with the view of SEHK to re-position GEM as a stand-alone board and remove the GEM streamlined process for transfer. Regulatory arbitrage between the Main Board and GEM should be avoided.

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 agree with the view of SEHK.

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 view of SEHK in paragraph 27 of the Executive Summary.

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 view of SEHK in paragraph 22 of the Executive Summary.

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 believe the key is to avoid regulatory arbitrage between the Main Board and GEM, and there is no need to increase the entry barrier of GEM to achieve that.

Raising the Cashflow Requirement by HK\$10 million may discourage certain small companies with genuine listing purpose from gaining access to GEM. To provide more opportunities for small and medium size companies to list on GEM, we suggest to maintain the current Cashflow Requirement.

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.

As discussed in our answer to Q5 above, we believe the key is to avoid regulatory arbitrage between the Main Board and GEM, and there is no need to increase the entry barrier of GEM to achieve that.

We suggest to maintain the current minimum market capitalisation requirement.

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 that extending the post-IPO lock-up requirement will increase the commitment of the controlling shareholders in the GEM issuers and could, to a certain extent, address the "shell company creation" issue.

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 view of SEHK in paragraphs 46 and 49 of the Executive Summary.

The proposed mandatory public offering mechanism may help to alleviate the problem of high shareholding concentration and price volatility of GEM issuers' shares.

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 view of SEHK in paragraph 49 of the Executive Summary and paragraph 32 of Chapter 4 of the Consultation paper.

- (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 view of SEHK in paragraph 49 of the Executive Summary.

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 that a higher minimum public float value may help to establish a more open market for the shares of a GEM issuer; and a fund-raising exercise too small would not justify the listing expenses anyway.

However, we consider that an increase to HK\$40 million may be adequate.

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's listing regime works well in general and there are no compelling reasons to change the current regime.

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.

Main Board's listing regime works well in general and there are no compelling reasons to change the current level of profit.

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.

Good companies have multiple choices of listing venue and it is to the benefit of SEHK to have a larger pool of potential applicants. So we suggest not to increase the entry barrier of the Main Board.

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.

Main Board's listing regime works well in general and there are no compelling reasons to change the current minimum public float value.

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.

The current regime provides more flexibility to the business needs of companies listed on the Main Board. Extending the lock-up period may lower the attractiveness of the Main Board to some companies. "Shell company creation" is less an issue in the Main Board than in the GEM.

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.

The Main Board's requirements shall be reviewed independently. The Main Board regime works well in general.

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