

## 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 disagree with the proposal of repositioning GEM as a stand-alone board and removal of GEM Streamlined Process.

The current GEM board allows small to medium-size enterprises ("SMEs") to list with lower financial admission requirements and gain access to the capital market in Hong Kong to grow their business. Notwithstanding that GEM listing applicant may have lower profits, both GEM and Main Board listing applicants are subject to the same due diligence process, prospectus disclosure requirements and suitability assessment. Furthermore, upon listing, both GEM and Main Board listing applicants are also subject to the same corporate governance requirements and similar disclosure requirements. Therefore, we believe it is unfair and unnecessary to request GEM listed companies to go through the same due diligence and prospectus disclosure process again when GEM listed companies applying for a transfer to the Main Board, if the GEM Streamlined Process is removed.

Furthermore, we see that statistically more Main Board listed companies are subject to suspension, rather than GEM listed companies. For this, we do not see that merely raising listing criteria for GEM Transfer would improve price volatility, let alone improving the quality of listing applicants on Main Board.

Nevertheless, we believe there are a number of areas that could possibly improve the current GEM Transfers process and at the same time enhance the quality of applicants.

We suggest that all GEM Transfer applicants are required to demonstrate the followings:

- 1) no change of control and no fundamental change of principal business since GEM Listing and
- 2) at least 24 months active trading position after a GEM listing.

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.

Please refer to our answer to (1) above.

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.

First of all, we disagree that a listing company having a large market cap would imply or represent that company is of high quality in terms of either in corporate governance or business prospects. Secondly, under this Consultation Paper, the market capitalisation for Main Board applicants is proposed to increase from HKD200 mil to HKD500 mil. Assuming the profit of the listing applicant is HKD20 mil, the implied price-to-earning ("P/E") ratio will be 25 times.

Reference is made to the HKEx Securities and Derivatives Market Quarterly Report for second quarter of 2017 that only 343 out of a total of 1,746 Main Board listed companies achieved P/E ratio of more than 25 times. This leaves much of queries on the rationale in raising the market capitalisation to HKD500 mil for Main Board listing applicants and how to address those GEM listing applications, which are able to fulfil all the other new proposed requirements, except the valuation.

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 do not have opinion on the proposal in regards to the aggregate cash flow requirements as we do not understand the basis for such increase, although we generally agree that the minimum cashflow requirements for GEM listing applicants should rise.

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.

We advocate that there should not be any change of control for any GEM issuers applying for transfer to Main Board.

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 see this has been a recent market practice.

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 do not see the vetting process and quality requirements for GEM are significantly different from those of Main Board.

- (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 do not see the vetting process and quality requirements for GEM are significantly different from those of Main Board.

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 do not have opinion on the proposal in regards to aggregate cash flow requirements as we do not understand the basis for such increase.

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.

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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.

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.

No. Please refer to our answers under question 4 for details as we do not agree with the implied P/E ratio to reach at 25 times under the new proposal.

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\$125million?

☐ 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.

Furthermore, we recommend the lock-up period to extend to 2 years particularly for the GEM Transfer applicants.

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.

-End