

At the same time, delisting mechanisms of the three markets need to be in place to complement each other based on the overall landscape of HK's capital market instead of formulating and operating independently from each other.

In this way, the market segments can continue to reflect the quality and portfolios of their issuers they intend to focus on even years or decades after the issuers go public. This in return provides greater clarity and confidence to investors when they try to assess the opportunities and risks of issuers from different market segments.

In our separate submission in response to the questionnaire of the New Board proposal, we provide our reasons on why we do not see compelling reasons for creating a separate board for premium companies with WVR structures, i.e. the New Board PREMIUM. So our views and reasons from questions thereafter in this questionnaire will focus primarily on the New Board PRO, which we support its establishment for the longer benefits of HK's capital market.

Currently, the IPO applicants for the MB and GEM are undergoing the same vetting process and similar post-listing obligations after they are successfully listed. For this reason and against the backdrop of our recommendations that are put forward above, we agree with a re-positioning of GEM as a market for small and medium-sized businesses. For clarity and resonance reasons, we believe the market should be renamed as 'SME Board' instead of 'GEM'. The latter name was originally designed for and represents growing businesses. This cognitive meaning has been deeply rooted among applicants, issuers and investors over the decade and the re-positioning of GEM would provide a good opportunity to name the market that can better present the nature of its issuers.

So for the proposals of removing the streamlined process and re-introducing certain requirements during a transfer application, we believe additional due diligence and a listing document may only be required in the circumstance where there is a change in controlling shareholder/ principal business after the business gets listed. Otherwise we believe it is unnecessary and simply do not have much value to remove the streamlined process for the transfer applicants and re-introduce the subject requirements (a) and (b).

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 applying the same principles that we state in Q1 to our reasons and views to this question. We believe the requirements of publishing and distributing at least two financial years of financial statements, and accordingly the same period of related compliance of Listing Rules for transfer applicants need to be closely related to the re-positioning of the GEM and MB.

If the new positioning is clearly defined and delineated enough to set each market apart appropriately, we believe the existing requirement of publishing and distributing at least one financial year of financial statements for transfer applicants is sufficient. However, for those issuers with a change in controlling shareholder/ principal business within the

financial year preceding and up to the transfer application, we agree this may warrant an extended post-change track record period to demonstrate fulfillment of the MB's listing criteria.

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.

The re-positioning of the GEM as a SME board answers this question. If GEM is a market for small and medium-sized issuers, we believe a track record of two financial years would be representative enough for investors to make informed investment decisions.

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 believe it is important for HK as a free and open international financial center to retain this practice providing choices and flexibilities to issuers and listing candidates to choose the portfolio of investors that they wish to interact and invest into their business.

5. Do you agree with the proposals 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.

For GEM to be able to transform into a SME market, using the existing cashflow requirement as a financial admission criteria may no longer deem appropriate and be able to reflect the full set of business characteristics of the potential listing companies. We believe to increase the cashflow requirement to at least HK\$30 million is only one of the many options and profit or revenue requirement, or a combination of them, may be considered as well.

6. Do you agree with the proposal to increase the minimum market capitalization requirement at listing from HK\$100 million to HK\$150 million?

- Yes
 No

Please give reasons for your views.

We see there is a need to go back to the positioning of the MB, GEM and New Board PRO in order to determine the right level of increment of the minimum market capitalization requirement at listing for each market. Given the New Board PRO is envisaged to be a market for companies at early or pre-profit stage, it is worthwhile to re-examine whether the gap of the criteria of the minimum expected market capitalization at the time of listing for the New Board PRO and GEM issuers needs to be widened from the perspective of the positioning and value proposition of the two markets.

7. Do you agree with the proposal to increase the post-IPO lock-up requirement such at 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.

Over the years, we notice the higher risk characteristics that GEM issuers, which are predominately SMEs, generally would exhibit. Investors also tend to base their investment decisions on the background of the controlling shareholder(s), management team or individual executives as well as the business that the issuers run. Against this, we agree to extend the post-IPO lock-up requirement for controlling shareholders of the GEM issuers to enable the GEM to assert greater confidence to the investors. In the longer run, we believe such a requirement would help contribute to the success of GEM.

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 as such a mechanism will help create a diversified shareholder base for the GEM issuers, which is fundamentally, equally essential to all listed companies.

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.

This proposal will be aligned with the proposal to introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs.

(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 this proposal given our reasons and views in Q8. In order to enable the proposal to introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs to be applicable, it is necessary to expand this clawback mechanism for MB IPOs to GEM IPOs as well.

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.

If GEM is to be re-positioned and the minimum market capitalization requirement is to rise, there is a need to increase the minimum public float value of securities as well.

11. Do you agree with using the Profit Requirement to determine eligibility to list on the Main Board?

- Yes
 No

Please give reasons for your views.

The three financial criteria for listing on the MB are all as important as each other in order to draw companies from different background and industries for a more diverse and balanced portfolio of issuers for the MB. Nonetheless, no one would disagree that profit requirement remains a key yardstick for listing on the MB. However, it should be not taken as the only criteria for the future success of the MB.

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.

If the MB is to be a market for premium companies and to ensure competitiveness of the market as compared with other stock exchanges, we believe it is appropriate to maintain the current level of profit under the profit requirement.

13. Do you agree with the proposal to increase the minimum market capitalization 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 that there is a need to increase this requirement if the MB is to stand as a premium board. However, we believe the benchmark of HK\$500 million may need to be revisited based on the intended positioning of the MB as this size level may draw a combination of SMEs, and sizable, scalable and sustainable companies. That would also mean some SMEs may attempt to list on the MB while they do not fundamentally possess the characteristics of premium companies.

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.

If the minimum market capitalization requirement for MB applicants is to rise, then there is a need to increase the minimum public float value of securities as well.

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 this 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 capitalization requirement to HK\$500 million?

Please give reasons for your views.

We believe only if the minimum market capitalization for MB admission is to set at a level that commensurates with the intended majority size of premium companies, there is no immediate need to extend the current post-IPO lock-up requirement for controlling shareholders of MB issuers to address the issues identified in the 2016 Suitability Guidance Letter. Our comments to the proposed rise in the minimum market capitalization requirement to HK\$500 million can be found in our response to Q13.

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.

Our reasons are the same as what we set out in Q1.

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