

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 take the view that the GEM Streamlined Process should be kept to permit quality GEM listed issuers to have a stepping stone towards reaching the Main Board as their ultimate aim. Appointment of sponsor should not be necessary because the Listing Division should already be satisfied with the integrity and competence of the directors of a GEM listed issuer who should be in the best position to give assurance on the documents (including announcements or listing documents) issued by a listed issuer. Further, the GEM listed issuers and its directors are already governed by the GEM Listing Rules that aim to safeguard the interests of the shareholders. In the case of a new application, the sponsor's role is to guide and advise applicants through the IPO process, assess applicants suitability for listing and ensure sufficient disclosure in the prospectus. In the case of GEM Transfers, such role of the sponsor represents little value since the directors of a GEM listed issuer should have been abreast of the relevant rules and regulations. In addition, having complied with the disclosure requirements of the GEM Listing Rules, the regular reports, announcements and other publications of the GEM listed issuers should have contained sufficient information for the regulators and/or investors to assess the GEM Transfer applicants' suitability for Main Board listing and to form a valid and justifiable opinion of the applicants' financial condition and profitability. Due to the same reason, we also consider publishing a listing document in respect of GEM Transfer applications to be of little value and would only duplicate the other publications of the GEM Transfer applicants and create onerous work on the GEM Transfer applicants.

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 take the view that imposing a two-year listing and good behaviour record requirement would “penalise” a GEM company which, for example, meets all the Main Board entry requirements but has not been listed on GEM for two years. Such a company will have to wait for one more year to get listed on the Main Board if it is first listed on GEM (which requires a two-year track record); if in fact it is able to satisfy Main Board listing requirements with a three-year track record after waiting for a year. It effectively sets up an artificial barrier to make it more difficult for issuers preferring to use the second board as a relatively short-term stepping-stone towards reaching the Main Board as its ultimate aim. If the proposal of a two-year waiting period on the GEM is adopted, in effect the total period under assessment and scrutiny would be four years, given that the admission criteria requires two years of operating cash flow plus another two years’ listing status.

Furthermore, we submit that the definition of “Eligible Issuers” should be amended to include all issuers listed on GEM and all GEM applicants who have submitted a valid listing application for listing on GEM as at the Amendment Effective Date (as opposed to “the date of this consultation paper”) and successfully listed on GEM subsequently (with only one refreshed listing application after the Amendment Effective Date (as opposed to “the date of this consultation paper”) considering the legitimate interest of GEM applicants which have, prior to the date of this consultation paper, chosen to list on GEM as a result of GEM’s current positioning as a “stepping stone” to the Main Board and incurred substantial costs therefor.

We further submit that prior to the announcement of the consultation paper, we have engaged various professional parties and incurred considerable amount of time, manpower and resources to prepare for the listing application. We consider that it would be unfair and oppressive to the listing applicants like us (who initially view GEM as a stepping stone to the Main Board) if the above amendments take effect retrospectively on the date of the consultation paper.

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.

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.

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.

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.

(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.

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.

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.

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 -