

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.

The current mechanism for treating GEM as a stepping stone to the Main Board has not been working properly, which resulted in large number of low quality companies in GEM and harm the development of the Hong Kong stock market.
The requirements to appoint a sponsor for GEM Transfers and publishing a "prospectus standard" listing document can ensure that both Main Board and GEM applicants are subject to the same level of due diligence and adequate information will be disclosed to the investors for them to make a properly informed investment, especially for those companies which have changed their controlling shareholders and/or principal businesses after listing on GEM.

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.

The two years track record provides investors with adequate information about the company's performance after its listing on GEM. The longer track record (two years for GEM application plus two years for transfer application, as compared to three years for Main Board application) is considered appropriate given that GEM companies are smaller in scale with more volatile performance.

Clean compliance record requirements can promote the rule compliance culture for listed companies, in particular, GEM companies, which improves market quality.

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 purpose of GEM is to allow companies of smaller size or at their earlier stage of development to gain access to the capital market so as to further grow its business. Therefore, it would be unduly burdensome and difficult for GEM applicants to extend its track record to over two years. This also better differentiates from the Main Board requirements. The extension of time required for a transfer application from one year to two years (stated in Q2) already addresses the concerns that a longer track record is required for GEM applicants subsequently transferring to Main Board given that they are smaller in scale and with less matured business as compared to Main Board applicants.

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.

The listing on Main Board or GEM is purely a commercial decision and given that both Main Board and GEM Board applications will be approved by the listing committee and sponsor is required for all transfer applications going forward, there is no advantage that a company can gain from listing on GEM first and subsequently transfer to Main Board.

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.

The HK\$20 million cashflow requirement was set almost a decade ago and during the period, consumer price index has been increasing with market inflation. If the minimum requirements is not increasing, then the cashflow requirement is effectively lowered which defeats the original purpose of screening out business that may not be viable. The 50% increment is considered appropriate with reference to the inflation during the period.

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.

Same logic as Q5 and to in line with the proposed increase in minimum cashflow 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.

I agree with the proposal because it is an effective mean in addressing the "shell company" issue as it will significantly increase the cost for shell manufacturing. Such restriction is also considered reasonable from the controlling shareholder perspective as they go listing with an aim to further grow its business with the listing platform and two years is a reasonable period for them to keep its controlling stake and further grow its business.

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.

It is appropriate to get it in line with the Main Board requirement as both Main Board and GEM are opened to all investors. The broader shareholder base also reduces share price volatility and reduces the chance of market manipulation, which is good to the development of GEM.

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.

It is appropriate to get it in line with the Main Board requirement as both Main Board and GEM are opened to all investors and the requirement aims at a fair allocation of shares to the investors, so as to protect the public investors.

(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.

It is appropriate to get it in line with the Main Board requirement as both Main Board and GEM are opened to all investors and the requirement aims at a fair share allocation between public and placing investors.

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.

Same logic as Q5 and to in line with the proposed increase in minimum cashflow requirement.

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.

N/A

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.

The proposed increase in minimum market capitalization requirement for Main Board applicants effectively increase the profit requirement in an indirect way. A straight increase in Profit Requirement may rule out some growing companies, which marginally meet the current Profit Requirement but demonstrated strong growth which demand a higher valuation and could meet the higher market capitalization requirement, which is not good to the market development.

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.

Minimum market capitalisation of HK\$500 million is considered appropriate given that majority of the companies currently trading on Main Board are with market capitalisation above this threshold and such move can screen out those applicants with low profitability or growth potential.

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.

As the Listing Rule requires a minimum public float of 25%, the minimum public float value of securities should increase with the increase in minimum market capitalisation requirement (Q13) accordingly.

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.

Same rationale as Q7.

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 proposals for the Main Board should be considered independently based on their own merits as the two boards, although interconnected in certain aspects, are operating independently.

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