

[REDACTED]

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Dear Sir/Madam,

**Re: (1) New Board Concept Paper, and
(2) Consultation Paper on Review of the Growth Enterprise Market
(GEM) and Changes to the GEM and Main Board Listing Rules**

As a market participant in the Hong Kong securities market with more than 20 years experiences, [REDACTED] would like to reply to the captioned papers as below:

1. We agree that the proposed optimization of the listing rules and regulations would be beneficial for Hong Kong's position as an international financial centre

Hong Kong stock market has always been one of the most developed markets in the world. In the past 20 years, the scale and sophistication of the investment market has changed a lot. It is important to ensure that the listing rules and regulations are up-to-date and adequate for the current global economic development, thus it is good to review and optimize the relevant rules in order to stay competitive and attract more potential issuers as well as investors to the Hong Kong market. Along with the fast development and huge potential from the New Economy companies all over the world, we have all realized that it is time to make necessary amendments to adapt to the new investment trend. We believe continuous efforts in the listing structure improvement as well as enhanced monitoring on the issuers would be essential to maintain the quality of the Hong Kong Securities market.

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2. We agree with the establishment of the New Board PREMIUM (or necessary amendments on the Main Board) in order to attract New Economy companies to get listed in Hong Kong

The proposed New Board PREMIUM would be the blueprint for future long term development. We understand that many of the New Economy companies are achieving fast growth compared to traditional industry players in recent years. For example, the leading corporates in IT including Alibaba, Amazon and Facebook etc. have all been well recognized all over the world, while their performances in the capital markets have received a lot of attention from investors. It is a good idea for the Stock Exchange of Hong Kong to propose the establishment of the New Board which accepts Weighted Voting Rights ("WVR") arrangement, so that we could attract more New Economy companies to come to the Hong Kong capital market for listing and further development. This would provide more dynamic options to investors in Hong Kong, and we can strengthen our competitiveness as an international financial centre with a friendly fund raising platform.

Once the New Board PREMIUM is launched, there may not be significant results in the first few years. However, the New Board PREMIUM provides a platform for the New Economy companies which adopt Weighted Voting Rights and plan to get listed, would bring in strong positive effect on the Hong Kong capital market.

While we are trying to attract some very popular New Economy companies to come to Hong Kong for IPO, we are facing severe competitions from different stock exchanges globally, especially the US. One of the major reasons for New Economy companies to choose the U.S. market for IPO is that WVR structure could be allowed there. Although only 33 out of 116 Mainland companies with primary listings in the US have WVR structures, their combined market capitalisation of US\$561 billion represents 84% of the market value of all US-listed Mainland companies. Their market capitalisation is equivalent to 15% of the entire market capitalisation of the Hong Kong market. Moreover, 18 out of these 33 US-listed Mainland Chinese companies with WVR structures are from the IT industry in which the Hong Kong market is underweight. Should these companies come to get listed in Hong Kong instead, they are very likely to bring in growth momentum in the Hong Kong market.

On one hand, introducing the New Economy companies into the Hong Kong capital market could drive the growth in trading volume in the securities market and facilitate a more dynamic investment environment. On the other hand, whether the launch of the New Board could be successful depends on if the market would be attractive and active enough, on which the Stock Exchange of Hong Kong may need to spend resources on the promotion and market education.

As launching the New Board and turning it into success may take years and even longer, another option is making amendments on the existing listing rules of the Main Board or handling new listing requests with a certain level of flexibility to accept the WVR structures which is well adopted among New Economy companies. We all hope the process to be cost effective and efficient after all.

3. Cautious planning and execution is recommended for New Board PRO

Compared with New Board PREMIUM, the entry requirements for New Board PRO are much lower, therefore there would be high risks, thus it is supposed to be suitable for professional investors but not retail investors. New Board PRO would be a good platform for start-up companies to increase the market recognition and facilitate their business expansion with fast growth. However, these companies may not be able to ensure profitability as there is no track record required, and the low requirement for New Board PRO listing may lower the average quality of listed companies in Hong Kong. If retail investors are excluded in the New Board PRO, the investor coverage is comparatively narrower. With lack of different compositions in the shareholder base, it is possible there is not enough liquidity and investors would subsequently lose interest. Another potential issue is that the shareholding may be highly concentrated in the hands of a few investors.

We recommend the Stock Exchange of Hong Kong should carefully consider the possible scenarios and issues, and be more cautious in the planning and execution if the New Board PRO is to be launched one day.

4. We agree with making necessary changes to the GEM and Main Board Listing Rules for better monitoring, this will encourage listed companies to achieve sustainable improvement

Main Board:

We agree with the proposals in the consultation paper including the followings:

- No changes to the current Profit Requirement
- Increase public float value requirement
- Increase minimum market capitalisation requirement
- Longer lock-up on controlling shareholders

GEM Board:

The revamped GEM regime has been in operation for almost nine years. In recent years, there have been comments that the current GEM requirements have been exploited by some market players, which may have potentially led to a disorderly market in the shares of some GEM issuers thereby affecting the overall quality of the market. We all welcome new measures to be taken in order to optimize the listing rules and regulations, so as to achieve better control on the issuers' performance post listing.

First of all, we agree with introducing a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs. This could eliminate the possibility of a high concentration of shareholding, illiquid shares and increased price volatility post listing. In addition, we agree with the proposed ideas in the consultation paper including the below as they are well accepted in the market:

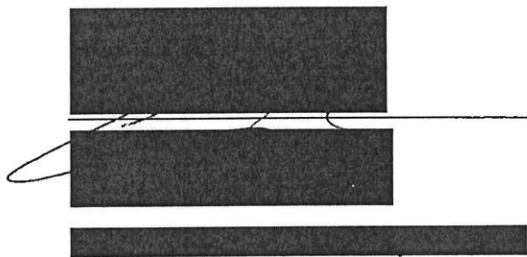
- Increase the cashflow requirement
- Increase the minimum market capitalisation requirement
- Increase the post-IPO lock-up requirement on controlling shareholders
- Increase the minimum public float value

However, we think it is still important to maintain GEM Board's positioning as a "stepping stone" to the Main Board as it provides a listing channel for smaller companies. This is a great platform for SME companies to achieve fund raising for further development with the goal to become Main Board listed companies one day. Of the 137 GEM Transfer Applicants from 2003 to 2016, 72% (99 of 137) successfully transferred to the Main Board whilst 28% (38 of 137) were unsuccessful. The GEM Streamlined Process is cost effective and less time

consuming, which encourages the GEM applicants to make good use of this platform for sustainable development. Instead of removing the GEM Streamlined Process, we recommend adopting some amendments in the existing rules, including requesting GEM listed companies to provide and disclose all necessary information, or applying a more strict approval procedure on transfer request to the Main Board.

We hope that the above opinions could be helpful for the Stock Exchange of Hong Kong to improve the relevant listing rules and regulations. We have trust and confidence in your guidance, and we look forward to having a more competitive investment environment in Hong Kong.

Yours faithfully,

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Part B Consultation Questions

Re: Consultation Paper on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules

Question 1: Do you agree with the proposal to re-position GEM as a standalone 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)? Please give reasons for your views.

- No. We do not agree with the proposal to re-position GEM as a stand-alone board. Instead, it is more meaningful to have GEM as a stepping stone to Main Board should those potential GEM companies have good track records and demonstrate sound corporate governance. We suggest to maintain the GEM Streamlined Process. However, the ongoing monitoring of the GEM companies’ corporate governance and rules compliance could be stricter.

Question 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? Please give reasons for your views.

- Yes. We think this is reasonable requirement

Question 3: Do you agree with the proposal to retain the current track record requirement under the GEM Listing Rules (i.e. two financial years)? Please give reasons for your views.

- Yes. We think this is reasonable requirement.

Question 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? Please give reasons for your views.

- Yes. We have no objection to the current practice, yet the applicant needs to provide solid reasons for choosing not to be listed on the Main Board if they can meet the Main Board admission requirement.

Question 5: Do you agree with the proposal to increase the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million? Please give reasons for your views.

We invite suggestions on other potential quantitative tests for admission to GEM.

- Yes. We think this is a reasonable requirement.

Question 6: Do you agree with the proposal to increase the minimum market capitalisation requirement at listing from HK\$100 million to HK\$150 million? Please give reasons for your views.

- Yes. We think this is a reasonable requirement.

Question 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?

Please give reasons for your views.

- Yes. This requirement will reinforce the controlling shareholders' responsibility and commitment post listing

Question 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?

Please give reasons for your views.

- Yes. This facilitates a broader shareholder base and better market liquidity. More retail investors could participate in the share subscription.

Question 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 HKEXGL85- 16 "Placing to connected clients, and existing shareholders or their close associates, under the Rules"; and

(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?

Please give reasons for your views.

— Yes. It is better to be consistent.

Question 10: Do you agree with the proposal to increase the minimum public float value of securities from HK\$30 million to HK\$45 million? Please give reasons for your views.

— Yes. It is good to have a higher standard, which is reasonable.

Question 11: Do you agree with using the Profit Requirement to determine eligibility to list on the Main Board? If not, what alternative test should be used? Please give reasons for your views.

— Yes.

Question 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?

Please give reasons for your views.

— Yes. The current requirement is reasonable.

Question 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? Please give reasons for your views.

— Yes. This proposal is feasible for the current market situation and we agree

with this suggestion.

Question 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? Please give reasons for your views.

— Yes. This proposal is reasonable.

Question 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?

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 (see paragraph 36).

Please give reasons for your views.

— Yes we agree. Reasonable lock-up period could reinforce the controlling shareholders' continuous responsibility and commitment post listing. In normal situation, controlling shareholders tend to hold their shares for a longer period if the company has good growth potential.

Question 16: Do you agree that the proposals for the Main Board should be considered independently irrespective of the outcome of the proposals for GEM? Please give reasons for your views.

— Main Board is a very mature listing board and it has a higher standard compared to GEM Board. Proposals for GEM should not affect Main Board.