

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 agree to the proposition that the GEM Board be kept and positioned as a market for small to medium sized companies. This is important for providing a venue for this segment of companies to have access to the capital markets.

The GEM Board has been a key component of a multi-tier capital market of Hong Kong, with the Main Board catering to large sized and established companies, GEM Board for small- to medium-sized companies and the New Board for companies with non-standard governance structures. Companies in different cycles of development and special needs can be catered for.

Since the GEM board is for small- to medium sized companies and the Main Board for large and established companies, there is a logical relationship between the two and we prefer seeing a path of transition for GEM companies to move to the Main Board, as those GEM companies grow in size and mature in business.

The current proposal to abolish the Transfer Arrangement for GEM companies to the Main Board and requesting them to go through a near IPO exercise by having to appoint a sponsor and prepare a prospectus-standard document would be a huge financial burden to those GEM companies and is not necessarily beneficial to the interests of the shareholders as a whole. In general, we do not think it is necessary for those GEM companies that seek a Main Board listing to produce a prospectus-standard document. The reason is that those companies have already produced a prospectus when it was first listed on GEM, and under the current proposals they would need to have published and distributed at least two full financial years of audited financial statements after their GEM listings. As such, their business and financial positions are transparent enough. We therefore suggest that in lieu of a prospectus-standard document, the company needs only produce a shareholder circular but still need to appoint a sponsor to undertake due diligence and guide the company through the Main Board listing process. An exception would be for those companies who have significantly changed their business nature while listed on GEM. In these cases, there might be a need for a more detailed disclosure of the latest business situation. That said, with the various recent proposals to tighten up Reverse Takeovers Rules, there should have been adequate measures in place to safeguard against abuse.

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.

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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.

Companies should be allowed to decide which board they wish to be listed on.

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.

In connection with our view that no New Board PRO should be established, GEM will be the main venue of listing for smaller companies or start-ups. We therefore believe that the listing requirements of the GEM Board should remain relatively low to facilitate the listing of those companies. We suggest that the cash flow and market capitalisation requirements be kept at the existing levels. We must stress that the market irregularities associated with GEM Board companies recently are not attributed to the size of the companies but stemmed from the behaviours of the controlling shareholders and connected parties of the problem companies. Such market irregularities can be rectified by stringent enforcement of applicable laws and regulations by the SFC and SEHK.

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.

See our answer to Q.5

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.

While we disagree with raising the quantitative requirements for GEM IPO applicants, we see the benefits of this proposal in locking in the commitment of the company controlling shareholders.

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.

While we disagree with raising the quantitative requirements for GEM IPO applicants, we see the benefits of this proposal in ensuring an open market of the stock.

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.

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- (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.

Please see our answer to Q.5

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.

We believe there is room for the Main Board Listing Requirements to be revised upwards. But as we understand the HKEX is planning to conduct a separate consultation about the Main Board, we await the contents and proposals of that consultation.

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.

In general, we agree this should be revised upwards. But as we understand the HKEX is planning to conduct a separate consultation about the Main Board, we await the contents and proposals of that consultation.

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 -