

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below that are raised in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/June-2018-Backdoor-and-Continuing-Listing/Consultation-Paper/cp201806.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with the proposal to codify the assessment criteria under the principle based test in a Note to the proposed Rule 14.06B?

Yes

No

If your answer is "No", please give reasons for your views.

2. Do you agree with the proposal to extend the current criterion "issue of restricted convertible securities" in the principle based test to include any change in control or de facto control of issuers?

Yes

No

If your answer is "No", please give reasons for your views.

3. (a) As regards the "series of arrangements" criterion, do you agree with the proposal to include transactions and arrangements that take place in reasonable proximity or are otherwise related and normally within a three-year period?

Yes

No

If your answer is "No", please give reasons for your views.

Whilst we agree with the proposed changes, we disagree with the three-year period which in our view, is likely to be too onerous, would prefer the current two-year period. See Q4(b) below for the same reasons for our view.

(b) Do you agree with the proposal to amend the RTO Rule 14.06B to clarify that a series of acquisitions may include proposed and/or completed acquisitions?

Yes

No

If your answer is "No", please give reasons for your views.

4. (a) Do you agree with the proposal to retain the bright line tests under Rules 14.06(6)(a) and (b) in a Note to the proposed Rule 14.06B?

Yes

No

If your answer is "No", please give reasons for your views.

(b) Do you agree with the proposal to extend the aggregation period from 24 months to 36 months under the bright line test currently set out in Rule 14.06(6)(b)?

Yes

No

If your answer is "No", please give reasons for your views.

If a backdoor listing principal can wait for 24 months, he can also wait for 36 months. 36 months may be too onerous and may even be detrimental to the interests of stakeholders/investing public of such issuers involved as a 36-month non action could end up hurting the market share value and trading volume formation of such issuers and ultimately, the market.

5. (a) Do you agree with the proposed changes to Rule 14.92 (proposed Rule 14.06E) as described in paragraph 56 of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons for your views.

Whilst agree with the proposed changes, 36 months period is too long and would prefer the existing 24 months.

- (b) Do you agree with the proposal to add a Note to proposed Rule 14.06E as described in paragraph 59 of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons for your views.

Whist we agree with the proposed changes, we disagree with the 36 months period. Same reasons for our view as set out in 4(b) above.

6. (a) Do you agree with the proposal to add a new Rule 14.06C for "extreme transactions" as described in paragraph 62 of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons for your views.

(b) Do you agree with the disclosure requirements for circulars of extreme transactions set out in proposed Rules 14.53A(1) and 14.69?

Yes

No

If your answer is "No", please give reasons for your views.

(c) Do you agree with the due diligence requirements for extreme transactions under proposed Rule 14.53A(2)?

Yes

No

If your answer is "No", please give reasons for your views.

7. (a) Do you agree with the proposal to amend Rule 14.54 and to add Rule 14.06C(2) as described in paragraph 69(i) of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons for your views.

(b) Do you agree with the proposal to amend Rule 14.54 to impose additional requirements on RTOs proposed by Rule 13.24 issuers as described in paragraph 69(ii) of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons for your views.

- 8. (a) Do you agree with the proposed Rule 14.57A to clarify the track record requirements for extreme transactions and RTOs that involve a series of transactions and/or arrangements?

Yes

No

If your answer is "No", please give reasons for your views.

- (b) Do you agree with the proposed Rule 4.30 that sets out the requirements for preparing pro forma income statement of all the acquisition targets in the entire series of acquisitions (where applicable, would include any new business developed by the issuer that forms part of the series) for the track record period?

Yes

No

If your answer is "No", please give reasons for your views.

- 9. Do you agree with the proposal to add a new Rule 14.06D to codify, with modification, the practice under Guidance Letter GL84-15 as described in paragraph 81 of the Consultation Paper?

Yes

No

If your answer is "No", please give reasons for your views.

10. Do you agree with the proposal to require issuers to have a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer's securities?

- Yes
 No

If your answer is "No", please give reasons for your views.

To require a sufficient level of operations and assets of sufficient value may be too oneous. Your paragraph 111 tries to distinguish a "temporary" reduction of operations which would not be considered to fail Rule 13.24 but in reality, that distinction is never easy and shoud best be left to the market and not by the Exchange. The existing Rule 13.24 reuqirement is sufficient to "catch" issuers which no longer have sufficient operations.

11. (a) Do you agree with the proposal to add a Note to the proposed Rule 13.24(1) as described in paragraphs 107 to 109 of the Consultation Paper?

- Yes
 No

If your answer is "No", please give reasons for your views.

The Note appears to be too involved in "micro-managing" or interpreting in an issuer's business which should not be the business of the Exchange.

- (b) Do you agree with the proposal to remove the Note to Rule 13.24 as described in paragraph 112 of the Consultation Paper?

- Yes
 No

If your answer is "No", please give reasons for your views.

We are of the view that it is difficult to fully and adequately describe all situations anyway, however you want to amend this Note.

12. Do you agree with the proposal to exclude an issuer's securities trading and/or investment activities (other than a Chapter 21 company) when considering the sufficiency of the issuer's operations and assets under Rule 13.24?

- Yes
 No

If your answer is "No", please give reasons for your views.

Principal investments undertaken by an issuer can be and often are part and partial of its operations and are most likely undertaken to enhance profitability. It is not easy to carry out such investments on a successful basis all the times and poor investment decisions will further reduce the issuer's scope of operations. Such market force should determine whether or not the trading or investment activities should be part of the issuer's operations or not, and not the Exchange.

13. Do you agree with the proposal to extend the definition of short-dated securities in the cash company Rules to cover investments that are easily convertible into cash ("short-term investments")?

Yes

No

If your answer is "No", please give reasons for your views.

All securities, short dated or not, are easily convertible into cash.

14. Do you agree with the proposal that the exemption under Rule 14.83 shall only be confined to clients' assets relating to the issuer's securities brokerage business?

Yes

No

If your answer is "No", please give reasons for your views.

Rule 14.82 is the cash companies rule and it will be difficult to distinguish between assets relating to an issuer's securities brokerage business and those which are not. E.g. "House" trading account within a securities brokerage firm can be very big in terms of cash and securities assets and are often used to carry out trades to enhance such an issuer's securities brokerage business but may not necessarily relate to its securities brokerage business.

15. Do you agree with the proposal to confine the revenue exemption to purchases and sales of securities only if they are conducted by banking companies, insurance companies and securities houses within the listed issuers' group?

- Yes
 No

If your answer is "No", please give reasons for your views.

An issuer which is not one of the financial institutions mentioned above can still undertake principal investment activities in a professional manner. It is not easy to undertake principal investments successfully all the times and the market force should determine whether such an issuer can continue to undertake securities trading and investments as one of its principal business activities, and not by the Exchange in its proposed revenue non-exemption.

16. Do you agree with the proposal to require issuers to disclose in their annual reports details of each securities investment that represents 5% or more of their total assets (as described in paragraph 134 of the Consultation Paper)?

- Yes
 No

If your answer is "No", please give reasons for your views.

17. Do you agree with the proposal to codify the requirements set out in Listing Decision LD75-4 (as described in paragraph 137 of the Consultation Paper) for significant distribution in specie of unlisted assets into the Rules?

- Yes
 No

If your answer is "No", please give reasons for your views.

18. Do you agree with the proposal to require disclosure on any subsequent change and the outcome of any financial performance guarantee of a target acquired by the issuer in a notifiable or connected transaction as set out in paragraph 140 of the Consultation Paper?

- Yes

No

If your answer is "No", please give reasons for your views.

19. (a) Do you agree with the proposal to require disclosure on the identity of the parties to a transaction in the announcements and circulars of notifiable transactions?

Yes

No

If your answer is "No", please give reasons for your views.

- (b) Do you agree with the proposal to require the disclosure on the identities and activities of the parties to the transaction and of their ultimate beneficial owners in the announcements of connected transactions?

Yes

No

If your answer is "No", please give reasons for your views.

20. Do you agree with the proposal that if any calculation of the percentage ratios produces an anomalous result or is inappropriate to the sphere of activities of the issuer, the Exchange (or the issuer) may apply an alternative size test that it considers appropriate to assess the materiality of a transaction under Chapter 14 or 14A?

Yes

No

If your answer is "No", please give reasons for your views.

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