

QUESTIONNAIRE ON REVIEW OF THE GROWTH ENTERPRISE MARKET (GEM) AND CHANGES TO THE GEM AND MAIN BOARD LISTING RULES

We invite interested parties to respond to the Consultation Paper on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules (**Consultation Paper**), which can be downloaded from the HKEX website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017062.pdf>

This Questionnaire contains the Privacy Policy Statement; Part A: General Information of Respondents; and Part B: Consultation Questions.

All responses should be made in writing by completing and returning to HKEX both Part A and Part B of this Questionnaire no later than **18 August 2017** by one of the following methods:

By mail or
hand delivery to: Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

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

By fax to: (852) 2524-0149

By e-mail to: response@hkex.com.hk

Please mark in the subject line:

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

Our submission enquiry number is (852) 2840-3844.

The names of persons who submit comments together with the whole or part of their submissions may be disclosed to members of the public. If you do not wish your name to be published please indicate so in Part A.

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From time to time we may collect your personal data such as your name, mailing address, telephone number, email address and login name for the following purposes:

1. to process your applications, subscriptions and registration for our products and services;
2. to perform or discharge the functions of HKEX and any company of which HKEX is the recognised exchange controller (as defined in the Securities and Futures Ordinance (Cap. 571));
3. to provide you with our products and services and administer your account in relation to such products and services;
4. to conduct research and statistical analysis; and
5. other purposes directly relating to any of the above.

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Except to the extent you have already opted out or in future opt out, we may transfer your name, mailing address, telephone number and email address to our affiliates for the purpose of enabling our affiliates to send promotional materials to you and conduct direct marketing activities in relation to their financial services and information services.

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For one or more of the purposes specified above, the personal data may be:

1. transferred to our affiliates and made available to appropriate persons in our affiliates, in Hong Kong or elsewhere and in this regard you consent to the transfer of your data outside of Hong Kong; and
2. supplied to any agent, contractor or third party who provides administrative or other services to HKEX and/ or any of our affiliates in Hong Kong or elsewhere.

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A reasonable fee may be charged to offset HKEX's administrative and actual costs incurred in complying with your data access requests.

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Should your account with us be cancelled or terminated at any time, we shall cease processing your personal data as soon as reasonably practicable following such cancellation or termination, provided that we may keep copies of your data as is reasonably required for archival purposes, for use in relation to any actual or potential dispute, for the purpose of compliance with applicable laws and regulations and for the purpose of enforcing any agreement we have with you, for protecting our rights, property or safety, or the rights, property or safety of our affiliates and employees.

Contact us

By Post:
Personal Data Privacy Officer
Hong Kong Exchanges and Clearing Limited
12/F., One International Finance Centre
1 Harbour View Street
Central
Hong Kong

By Email:
pdpo@hkex.com.hk

Part A General Information of the Respondent

- (1) Please state whether your response represents your personal or your company/ entity's view by checking () the boxes below and filling in the information as appropriate:

Company/ Entity view

Company/ Entity name*:	CompliancePlus Consulting Limited		
Company/ Entity type*:	<input type="checkbox"/> Listed company <input type="checkbox"/> HKEX Participant		
	<input type="checkbox"/> Investment Management Firm <input type="checkbox"/> Corporate Finance Firm		
	<input type="checkbox"/> Law Firm <input type="checkbox"/> Accountancy Firm		
	<input type="checkbox"/> Professional Body/Industry association		
	<input checked="" type="checkbox"/> None of the above (Type: Compliance Services Provider)		
Contact person*:	Mr/ Ms/ Mrs	Ms Josephine Chung	
Title:	Director		
Phone no.*:	+852 - 3487 6333	Email address:	jchung@complianceplus.hk



Personal view

Respondent's full name*:	Mr/ Ms/ Mrs
Phone no.*:	Email address:
Among the following, please select the one best describing your position*:	
<input type="checkbox"/> Listed Company Staff <input type="checkbox"/> HKEX Participant Staff <input type="checkbox"/> Individual Investor	
<input type="checkbox"/> Investment Management Staff <input type="checkbox"/> Corporate Finance Staff <input type="checkbox"/> Lawyer	
<input type="checkbox"/> Accountant <input type="checkbox"/> None of the above (Type:)	

Important note: All fields marked with an asterisk (*) are mandatory. HKEX may use the contact information above to verify the identity of the respondent. Responses without valid contact details may be treated as invalid.

(2) Disclosure of identity

HKEX may publish the identity of the respondent together with Part B of this response to the members of public. Respondents who do not wish their identities to be published should check the box below:

I/ We do not wish to disclose my/ our identity to the members of the public.

For and on behalf of
CompliancePlus Consulting Limited

Signature (with Company/Entity Name if the response represents company/ entity view)
天智合規顧問有限公司

.....
Authorized Signature(s)
14 August 2017

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.

One of the purpose of the GEM Streamlined Process for GEM Transfers is to encourage the Small and Medium Size Enterprise ("SME") to grow and so as to further facilitate a healthy business development. Therefore, abolishing the streamlined approach will further discourage the growth of the SMEs. In addition, the HKEx also needs to consider the inconvenience from the transfer of GEM issuers to get listed in Main Board as discussed in Discussion Paper on GEM as published by the HKEx in January 2006. An issuer had to delist from GEM and apply as a new candidate to the Main Board, and once listed on the Main Board, the issuer, without receiving prior waivers from the Exchange, could not issue new shares for six months nor could the controlling shareholder dispose of shares for six months according to Main Board Listing Rules 10.07 and Rules 10.08.

In addition, the HKEx Listing Division should be responsible for quality assurance of the GEM companies that a stricter assessment process should be applied so as to ensure the Main Board Candidate to be transferred from GEM in future meets the relevant corporate governance and quality as well. It is much more effective compared with simply abolishing the "stepping stone" positioning.

Therefore, we believe a new prospectus is not required to be submitted during the transfer process when HKEx and the sponsor was supposed to assess the accuracy and truthfulness of these information during the GEM listing stage. Rather, we believe they only need to appoint sponsor to assess the updated information which forms material discrepancies with the prospectus during GEM listing process.

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.

Although we disagree with the proposal of abolishing the streamlined process, we believe the GEM transfer applicants are required to submit both at least two full financial years of financial statements after a GEM listing (instead of the current requirement of one full financial year of financial statements). It is because it is one of the factor to determine the suitability of the GEM transfer applicant to get listed in Main Board.

However, we believe it is not necessary to submit (b) has not been subject to disciplinary investigations by the Exchange in relation to a serious breach because it is not determined whether it affects to suitability of the GEM transfer applicant to get listed to Main Board. Rather, we suggest the HKEx only requires the GEM transfer applicant to file the disciplinary investigations record for HKEx's consideration.



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.

We agree that the current track record requirement is sufficient to assess the suitability of GEM listing applicant in terms of financial status without reducing the attractiveness of GEM board towards the SMEs to get listed.

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.

We believe it is appropriate because it belongs to corporate's decision on listing that the HKEx should not intervene its decision.

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.

There is a need to update such cashflow requirements to meet current market situation. Given that a majority of existing sampled GEM issuers got net operating cash flow before changes in working capital meets HK\$30 million. It is appropriate to set the minimum net operating cash flow before changes in working capital is appropriate.

In addition, we recommend to adopt operating cash flow ratio below in order to ensure both liquidity and also credit status of GEM issuers as well.

Formula: Operating Cash Flow before changes in working capital / Current Liabilities

This can be subject to further discussion and revision from the HKEx accordingly.

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.

Low minimum market capitalization is one of the causes of lacking an open market where most shareholdings are concentrated on a small group of shareholders. Raising the threshold to 50 million would not be too burdensome to most companies and can enhance the quality of GEM applicants.

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.

We agree that the extending the lock-up period is crucial for investor protection. GEM Board should be a platform for developing business instead of speculation. We echo with the view that the proposed two-year post-IPO lock period can suppress the intention of creating shell companies.



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.

The introduction of mandatory public offering mechanism can broaden the shareholder base to ensure there is an open market for securities listed on GEM Board. The problems of market manipulation and volatility are expected to relieve. 10% public offering requirement is not onerous when compared with ChiNext. It is likely that there would be sufficient public demand because investor confidence in GEM issuers will improve with the new mechanism.

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.

We agree with the proposed alignment with the Main Board in order to better protect GEM shareholders.

(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.

To improve the quality of GEM Board, we support aligning the practice of allocating offer shares with the Main Board.

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.

As previously stated, we agree with the proposed increase in the minimum market capitalization. It is reasonable to have the proportionate increase in the minimum public float value by 50% as well.

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.

We agree with the Listing Committee's view that there are no compelling reasons to replace the Profit Requirement. This requirement is also considered key factor in other major exchange boards such as the NYSE and NASDAQ.



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 agree with the Listing Committee's view that there are no compelling reasons to change the current level of profit under the Profit Requirement. The Profit Requirement aims to provide grounds to ensure that the company has been effectively operated with healthy profitability. The size of profits may be limited by lack of capital instead of issues relating corporate governance or business plan. Therefore, the emphasis should be placed upon track records over a sufficiently long period of time instead of the size of the profits. The current size of the three year aggregate profit requirement is also at similar levels with the other major markets.

As we are of the view in Q13 above that the minimum market capitalization requirement should raise to HK\$650 to HK\$700 million, the minimum public float value should be adjusted to HK\$162.5 to HK\$175 million accordingly. Regardless of the final minimum market capitalization requirement level adopted by the HKEX, we agree that the public float should maintain at 25% of the market capitalization.

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.

The minimum market capitalization requirement at listing for Main Board applicants should be increased to at least HK\$650 to HK\$700 million. According to the statistics provided in the consultation paper, the proposed HK\$500 million minimum market capitalization is still less than half of that of the NYSE (HK\$ 1,552 million) and NASDAQ Global Select Market (HK\$1,242 million). The proposed level is also significantly short of SGX's HK\$843 million. It is therefore suggested that the minimum market capitalization requirement should be further raised to keep up the quality and competitiveness of Hong Kong's premier exchange board.



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.

We agree with the alternative proposition. The phenomenon of extensive selling of GEM-listed shell companies have not been observed in the Main Board so far. This is expected to be even rarer on the Main Board after raising the market capitalization requirement significantly. The overall adverse effect would exceed the favorable outcomes should the lock-up period be further extended. It is not necessary at this stage to revise the lock-up period.

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 proposed changes to the Main Board were based relative to overseas major markets and exchange boards instead of the GEM board rules. Therefore, the outcome of the GEM proposals should not influence the proposals for the Main Board. Furthermore, since the GEM proposals are aimed at repositioning GEM Board as an independent exchange board with its own appeal and value, there is no reason to consider the proposals of Main Board and GEM Board collectively.



- End -

