

June 2017

CONSULTATION PAPER

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

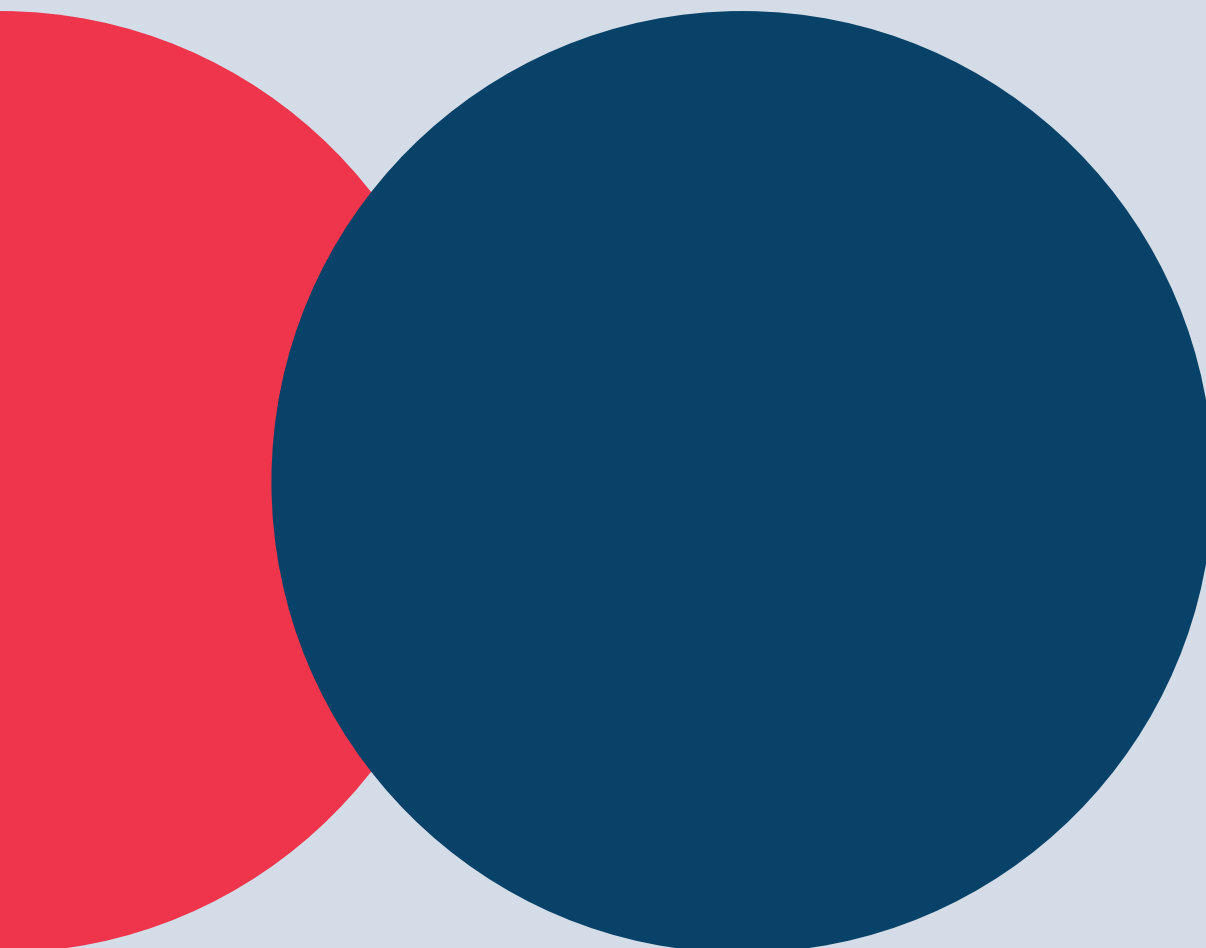


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HOW TO RESPOND TO THIS CONSULTATION PAPER

SEHK, a wholly owned subsidiary of HKEX, invites written comments on the matters discussed in this paper, or comments on related matters that might have an impact upon the matters discussed in this paper, on or before **18 August 2017**. You may respond by completing the questionnaire which is available at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017062q.docx>

Written comments may be sent:

By mail or hand delivery to: Hong Kong Exchanges and Clearing Limited
12/F, 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 email to: response@hkex.com.hk
Please mark in the subject line:
Re: Consultation Paper 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.

Respondents are reminded that the Exchange will publish responses on a named basis. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in **Appendix VII**.

Submissions received during the consultation period by **18 August 2017** will be taken into account before the Exchange decides upon any appropriate further action and a consultation conclusions paper will be published in due course.

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DEFINITIONS

TERM	DEFINITION
“1998 Consultation Paper”	SEHK consultation paper “ <i>A Proposed New Market for Emerging Companies</i> ” (May 1998) which sets out a proposal for a second market
“2002 Consultation Paper”	HKEX consultation paper “ <i>Proposed Amendments to the Listing Rules relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing Procedures</i> ” (July 2002)
“2006 Discussion Paper”	HKEX discussion paper “ <i>The Growth Enterprise Market</i> ” (January 2006) which sets out three different structural options for the further development of GEM
“2007 Consultation Paper”	HKEX consultation paper “ <i>The Growth Enterprise Market</i> ” (July 2007) which sets out proposed changes to the GEM Listing Rules
“2008 Consultation Conclusions”	HKEX consultation conclusions of the 2007 Consultation Paper (May 2008)
“2008 Rule Changes”	Changes to the GEM Listing Rules and processes, including the GEM Streamlined Process, that became effective on 1 July 2008
“2016 Suitability Guidance Letter”	Guidance Letter HKEX-GL68-13A “ <i>Guidance on IPO vetting and suitability for listing</i> ” published on 3 June 2016
“2017 Joint Statement”	Joint statement issued by the SFC and Exchange on the price volatility of stocks listed on GEM, in conjunction with the SFC Guideline (20 January 2017)
“4-5-6 Rule”	China Securities Regulatory Commission’s rule issued in July 1999 which required enterprises to have RMB400 million of net assets, raise US\$50 million of funds, and have an after-tax profit of not less than RMB60 million before they could apply for listing on overseas main boards, including the Main Board. This rule was relaxed in 2013 following the signing of Supplement IX to the Closer Economic Partnership Arrangement between the Government of the Hong Kong Special Administrative Region and the Central People’s Government of the People’s Republic of China
“AIM”	Alternative Investment Market, under the London Stock Exchange, for early stage, venture capital and more established companies, where nominated advisers or “Nomads”, are gatekeepers, advisers and regulators of issuers
“Amendment Effective Date”	Date on which the proposed amendments to the Listing Rules in this consultation paper comes into force, if adopted
“ASX”	Australian Stock Exchange

TERM	DEFINITION
“Cashflow Requirement”	The minimum amount (HK\$20 million) of aggregate operating cash flow before changes in working capital that a GEM applicant is required under GEM Listing Rule 11.12A(1) to have over the two financial years immediately preceding the issue of its listing document
“Catalist”	A sponsor-supervised listing platform, under the SGX, modeled on AIM where sponsors are qualified professional companies experienced in corporate finance and compliance advisory work and are the “front line” regulator of issuers
“ChiNext”	A Nasdaq-style board, under the Shenzhen Stock Exchange, for small Chinese companies which may not meet the listing criteria of the main market
“Delegated Authority”	The authority delegated to the Listing Department by the Listing Committee to approve or reject GEM listing applications as from 1 July 2008
“Delisting Notice”	Notice issued by the Exchange to a GEM issuer indicating a period usually of six months whereby the issuer is required to remedy, or submit to the Exchange proposals to remedy the matters which otherwise may lead to the Exchange exercising its right to cancel the listing of the issuer’s shares on GEM under GEM Listing Rule 9.15
“Eligible Issuers”	All issuers listed on GEM and all GEM applicants who have submitted a valid listing application for listing on GEM as at the date of this paper and successfully listed on GEM subsequently (with only one refreshed application after the date of this paper permitted)
“Exchange” or “SEHK”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of HKEX
“FCA”	Financial Conduct Authority, a financial regulatory body in the United Kingdom
“GEM”	Growth Enterprise Market of the SEHK
“GEM Streamlined Process”	Streamlined process introduced on 1 July 2008 where GEM issuers can transfer to the Main Board if they meet the Main Board admission requirements, without the need to appoint a sponsor and to issue a listing document
“GEM Transfer”	Transfer of a GEM listing to the Main Board

TERM	DEFINITION
“GEM Transfer Applicants”	137 GEM Transfer applications submitted to the Exchange from 2003 to 2016, excluding those that were still under vetting by the Listing Department as of 31 December 2016 (as they would distort the analysis in this paper)
“High Concentration Announcements”	Announcements issued by the SFC, regarding Main Board and GEM issuers that have shareholding concentration in the hands of a limited number of shareholders
“HKEX”	Hong Kong Exchanges and Clearing Limited, the operator of the securities market and futures market in Hong Kong through SEHK
“IPO”	Initial public offering
“Listing Committee”	A committee of the SEHK board of directors that exercises all the powers and functions of the board in relation to listing matters
“Listing Department”	Listing department of the SEHK
“Listing Rules”	Rules governing the listing of securities on the SEHK, and include both GEM and the Main Board rules unless otherwise stated
“Main Board”	Main board of the SEHK
“Mothers”	A stock market under the TSE for high-growth and emerging companies
“Nasdaq”	Nasdaq Stock Market, a stock market in the United States that has three tiers - Nasdaq Global Select Market, Nasdaq Global Market and NasdaqCX
“NasdaqCX”	Nasdaq Capital Market, the lowest tier stock market in Nasdaq
“NYSE”	New York Stock Exchange
“Profit Requirement”	Minimum profit requirement under the Main Board Listing Rule 8.05(1)(a), i.e. profit of at least HK\$20 million in the most recent financial year and aggregate profit of at least HK\$30 million in the two preceding financial years of a listing applicant’s three year trading period immediately preceding the issue of the listing document
“SEHK” or “Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of HKEX
“Selected GEM Issuers”	A total of 121 newly listed GEM issuers from 2013 to 2016

TERM	DEFINITION
“Selected Overseas Junior Exchanges”	Six overseas junior exchanges comprising AIM, Catalist, ChiNext, Mothers, NasdaqCX and TSX Venture. These junior exchanges are selected for comparison with GEM as they cover a reasonable portion of the global growth company landscape spanning the Asia-Pacific, European and Americas regions
“Selected Overseas Main Markets”	Six overseas main markets comprising ASX, FCA, Nasdaq Global Select Market, NYSE, SGX and SSE which represent some of the most successful overseas markets. The FCA is selected because it, rather than the exchange, sets the minimum financial eligibility requirements for admission to a listed securities market
“SFC”	Securities and Futures Commission, an independent statutory body which regulates Hong Kong’s securities and futures markets
“SFC’s Code of Conduct”	Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
“SFC Guideline”	A guideline issued by the SFC, in conjunction with the 2017 Joint Statement, regarding the standard of conduct that is expected of sponsors, underwriters and placing agents involved in the listing and placing of GEM IPO stocks (20 January 2017)
“SGX”	Singapore Stock Exchange
“Small Cap MB Issuers”	A total of 82 newly listed Main Board issuers (excluding GEM Transfers) from 2013 to 2016 which had a market capitalisation in the lowest quartile (25%) of the Main Board at listing
“SSE”	Shanghai Stock Exchange
“Transitional Period”	Period of three years from the Amendment Effective Date
“TSE”	Tokyo Stock Exchange
“TSX”	Toronto Stock Exchange
“TSX Venture”	A venture board under the TSX with two tiers (Tier 1 and Tier 2)

Exchange rates used in this paper for calculating the Hong Kong dollar equivalent amounts are based on the weighted average month-end rates for 2016 sourced from the Hong Kong Monetary Authority’s website

EXECUTIVE SUMMARY

1. This paper seeks market comments on SEHK's proposed reform to GEM and changes to the GEM and Main Board Listing Rules to ensure they reflect currently acceptable standards in the market and address recent concerns on the quality and performance of GEM applicants and listed issuers.
2. GEM was launched in November 1999 to provide emerging companies with a capital formation platform and as an alternative market to the Main Board. In order to encourage the listing of emerging and growth companies, GEM was designed to have less stringent admission requirements than the Main Board and operate an "enhanced disclosure based" regime with prominent "buyer beware" risk warnings in listing documents.
3. The launch of GEM coincided with the "dot-com" boom of 1999/2000 and there was great enthusiasm for companies that held out the promise of growth. However, after the "dot-com" bubble burst, many GEM issuers experienced a decline in their share prices and some experienced losses and/or long periods of suspension and their shares were often illiquid. Overall, there was a loss of confidence in the GEM market and the number of new GEM listings and post-listing fund-raising activities for GEM issuers decreased.
4. GEM was re-positioned in July 2008 from an alternative board for emerging and growth companies to a "stepping stone" to the Main Board. As a result, most of the original features of GEM were repealed and many of the GEM Listing Rules were amended to align with those of the Main Board.
5. 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 (see paragraph 12 below).
6. The current purpose of GEM is to allow small to mid-sized companies to list under less stringent admission requirements and enable them to access the Hong Kong capital markets to develop their underlying businesses or assets, and subsequently transfer to the Main Board under the GEM Streamlined Process. We believe that GEM's "stepping stone" positioning has achieved limited success (see paragraph 14 below). Therefore, we have reviewed GEM's position as a "stepping stone" to the Main Board, as well as its admission requirements with the aim of improving the overall quality of GEM listings.
7. We have set out in this paper three areas for review: (a) GEM's position as a "stepping stone" to the Main Board; (b) GEM admission requirements and delisting mechanism; and (c) the open market requirement. Our proposed amendments to the GEM listing requirements in this paper, if adopted, will

mean that the GEM listing requirements will be closer to or exceed the equivalent requirements of the Main Board. This paper also reviews and proposes to amend certain Main Board listing requirements to preserve the Main Board's position as a market for larger companies that can meet Hong Kong's highest market standards. A summary of our proposals on GEM and Main Board is set out below (see **Appendix I**).

New Board Proposal

8. Our proposals in this paper will, among other things, raise the GEM quantitative admission requirements and, if adopted, will mean that emerging companies will find it more difficult to list on GEM. While we believe that GEM continues to have a role in our market as a capital raising platform for small to mid-sized companies, it is acknowledged that measures will need to be taken to support capital raising by emerging companies which are at pre-profit and early stage. In this connection, as part of its holistic review of the markets, HKEX has published today a "New Board" concept paper, which sets out its proposal for the establishment of a new board, separate from the Main Board and GEM, to broaden capital markets access in Hong Kong by opening up to a more diverse range of issuers. The commercial rationale for the new board and GEM is set out in that paper.
9. The proposals in this paper and those set out in the HKEX's "New Board" concept paper should be considered separately. However, HKEX recognises that there are certain interdependencies between the two proposals and that the responses to both papers will need to be considered holistically in the final approach.

Summary of proposals

10. We propose:
 - (a) to re-position GEM as a stand-alone board and hence remove the GEM Streamlined Process for GEM Transfers;
 - (b) to require all GEM Transfer applicants to have (i) published and distributed at least two full financial years of financial statements after their GEM listings; and (ii) 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;
 - (c) to retain the current track record requirement under the GEM Listing Rules (i.e. two financial years);

- (d) 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;
- (e) to increase the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million;
- (f) to retain the current Profit Requirement to determine eligibility to list on the Main Board;
- (g) to increase the minimum market capitalisation requirement from HK\$100 million to HK\$150 million for GEM, and from HK\$200 million to HK\$500 million for the Main Board;
- (h) to increase the post-IPO lock-up requirement on controlling shareholders from one year to two years for GEM, and where appropriate, the Main Board;
- (i) to introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs;
- (j) to align the GEM Listing Rules on (1) placing to core connected persons, connected clients and existing shareholders, and their respective close associates; and (2) the allocation of offer shares between the public and placing tranches and the clawback mechanism, with the relevant requirements under the Main Board Listing Rules; and
- (k) to increase the minimum public float value of a GEM issuer's securities from HK\$30 million to HK\$45 million, and from HK\$50 million to HK\$125 million for a Main Board issuer's securities.

A. GEM'S POSITION AS A STEPPING STONE TO THE MAIN BOARD

11. The 2008 Rule Changes re-positioned GEM as a "stepping stone" to the Main Board to provide a listing channel for smaller companies, including H-share companies that could not meet the 4-5-6 Rule set by the Mainland authorities, to list on the Main Board. As a result, the GEM Streamlined Process was introduced to dispense with the appointment of sponsors and the issue of listing documents for GEM Transfer applicants.
12. In recent years, concerns have been expressed on, among other things, the GEM Streamlined Process, with comments that the process may provide an opportunity for regulatory arbitrage between the Main Board and GEM which potentially impacts the overall quality of the Hong Kong market. This is because:

- (a) applicants that are eligible to list on the Main Board can apply for a GEM listing instead, to make use of GEM's optional placing-only offering mechanism and lower public shareholder requirement without conducting a public offering, and then transfer to the Main Board at a later date;
 - (b) GEM's lower admission requirements, compared with those of the Main Board, may have been exploited by certain companies to access the Hong Kong capital markets for the premium attached to a listing status (rather than to develop their businesses) and this may have led to an increase in the number of potential shell companies listed on GEM;
 - (c) GEM's optional placing-only offering mechanism and small minimum public shareholder requirement at the time of listing may have led to a high concentration of shareholders, illiquid shares and increased price volatility post listing; and
 - (d) the GEM Streamlined Process is contrary to the objective of the sponsor regime implemented in October 2013 as it does not require the appointment of sponsor and the preparation of a listing document for GEM Transfers. This means that GEM Transfer applicants are not subject to a due diligence process as comprehensive as that for new applicants directly applying to be listed on the Main Board. Therefore, the GEM Streamlined Process does not provide sufficient shareholder protection and potentially affects the quality of the Main Board. Comments in the market are particularly concerned with those GEM Transfer applicants that have changed their controlling shareholders and/or principal businesses after listing on GEM.
13. As an initial step to address one of the major concerns with GEM IPOs, on 20 January 2017, the SFC and the Exchange issued the 2017 Joint Statement regarding the price volatility of GEM stocks, and the SFC issued the SFC Guideline to provide guidance to sponsors, underwriters and placing agents on the standard of conduct that is expected of them in the listing and placing of GEM IPO stocks.
14. The following sets out findings that support our belief that GEM's "stepping stone" positioning has achieved limited success:
- (a) although the number of GEM issuers has increased from 189 as of 1 July 2008 to 260 as of 31 December 2016 (involving 158 new GEM listings), only one H-share company has listed on GEM in 2015 since the 2008 Rule Changes and up to 31 December 2016;
 - (b) since the 2008 Rule Changes and up to 31 December 2016, the number of GEM Transfers per annum has not exceeded the 14 transfers that were completed in the second half of 2008 immediately after the implementation of the GEM Streamlined Process; and

- (c) the total number of GEM Transfers compared to the total number of GEM issuers eligible for a GEM Transfer, decreased from 7.2% in second half 2008 to 2.7% in 2016.

Consultation Proposals (see Chapter 2 for details)

Re-positioning GEM as a stand-alone board

- 15. Although we believe that GEM continues to play a role in our market as a capital raising platform for small to mid-sized companies, in view of the limited success of the “stepping stone” positioning and given the concerns highlighted above, we propose to reform GEM by re-positioning it as a stand-alone board and hence removing the “stepping stone” mechanism and the GEM Streamlined Process for GEM Transfers. This means that GEM Transfer applicants will be required to appoint a sponsor and issue a “prospectus-standard” listing document to ensure appropriate due diligence is performed and full disclosure is made (without requiring the applicant to conduct an offering). Accordingly, the application fee for a GEM Transfer will be the same as that for new listing applications to the Main Board. All GEM Transfer applications will continue to be approved by the Listing Committee. We believe this proposal would address market concerns on the extent of due diligence to be performed on GEM Transfers and would provide more clarity on the financial condition and operation of GEM Transfer applicants.
- 16. We propose that all GEM Transfer applicants must also have achieved the following before they can be considered for a GEM Transfer:
 - (a) published and distributed 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); and
 - (b) not been subject to any disciplinary investigation by the Exchange in relation to a serious breach or potentially serious breach of any Listing Rules for 24 months (instead of the current requirement of 12 months).
- 17. We believe that the above proposal will not be unduly disruptive as we note that the GEM Transfer Applicants that successfully transferred to the Main Board were listed on GEM for an average of 5.4 years before their transfers and 78% (62 out of 79) of the GEM issuers that were transferred to the Main Board from the second half of 2008 to 2016 had been listed on GEM for two full financial years or longer before their transfers.

Renaming the “Growth Enterprise Market” and 「創業板」 – for information only

- 18. Our review found that Selected GEM Issuers had been in operation for an average of 15.4 years at the time of listing. Irrespective of whether GEM continues to be positioned as a “stepping stone” to the Main Board, the names

“Growth Enterprise Market” and 「創業板」 are clearly not reflective of the type of applicants seeking to list on GEM – generally small to mid-sized companies with substantial operating history – and is also inconsistent with the description of GEM issuers as “emerging” companies under GEM Listing Rules 2.12 and 2.20

19. We will therefore change the names “Growth Enterprise Market” and 「創業板」 to “GEM”; and amend GEM Listing Rules 2.12 and 2.20 to better reflect the nature of GEM issuers. Corresponding changes will also be made to other parts of the GEM Listing Rules to reflect the new name.

B. GEM ADMISSION REQUIREMENTS AND DELISTING MECHANISM

20. The Exchange has noted that in recent years there have been adverse comments regarding the quality and performance of GEM issuers. Commentators have pointed to issues of high shareholding concentration, illiquidity and high volatility of GEM issuers’ shares. There are views that GEM’s lower admission requirements, compared with those of the Main Board, are being exploited by poorer quality companies to gain easy access to the Main Board by listing on GEM first.
21. We believe the likelihood that GEM’s shorter track record period requirement (two instead of three financial years) and less stringent financial requirement (Cashflow Requirement compared to the Profit Requirement) have been abused to circumvent the Main Board’s initial listing requirements is low. This is because, based on the information available, (a) only 6% (7 of 121) of Selected GEM Issuers appeared to have met the Profit Requirement and thus potentially qualified for a Main Board listing at the time of their GEM listing applications, and only one of these issuers transferred to the Main Board shortly (approximately two years) after listing on GEM; and (b) 79% (95 of 121) of Selected GEM Issuers still could not meet the Profit Requirement a year after listing based on their first annual reports published after listing or the profit forecast memorandum submitted with their listing applications.
22. We considered prohibiting an applicant to list on GEM if it has at least a three-year financial track record and, based on the information available, is able or appears to be able to meet the Profit Requirement. We decided not to pursue this proposal because it would be unduly onerous on GEM applicants and their sponsors to prepare at least three years of audited financial statements in order to demonstrate whether the GEM applicant is eligible for a Main Board listing. This would have the effect of imposing additional time and cost for a GEM listing that could be equivalent to that of the Main Board. We will however continue to require such GEM applicants to justify their decisions to list on GEM instead of the Main Board when there is indication in its GEM listing application that the applicant could potentially list on the Main Board.

23. We have also reviewed the Cashflow Requirement, the minimum market capitalisation at listing requirement and the post-IPO lock-up requirement on controlling shareholders, to determine if these should be revised to help improve the quality of GEM.
24. We note that the current Cashflow Requirement was introduced almost nine years ago. We maintain the view that cash flow remains an appropriate indicator of business viability for small and mid-sized companies as compared to the profit and revenue tests for Main Board applicants. However, based on our analysis, we believe the Cashflow Requirement of HK\$20 million is low, as 70% (85 of 121) of Selected GEM Issuers recorded aggregate operating cash flow before changes in working capital of HK\$30 million and above.
25. The current market capitalisation requirement was also introduced almost nine years ago. Based on our observations, the average market capitalisation of Selected GEM Issuers (excluding those with significantly large market capitalisation at the time of listing of HK\$1,000 million or more) was HK\$274 million. 88% (107 of 121) of Selected GEM Issuers had market capitalisation of HK\$150 million or above at the time of listing.
26. On 3 June 2016, the Exchange published the 2016 Suitability Guidance Letter to address the issue of companies listing for the perceived premium attached to the listing status rather than the development of the issuers' underlying businesses or assets. In relation to the post-IPO lock-up requirement on controlling shareholders, we note that of the 79 GEM applications submitted since the publication of the 2016 Suitability Guidance Letter and up to 31 December 2016, 44% (35) of these GEM applicants' controlling shareholders have volunteered to lock up their equity interest for a longer period than the GEM Listing Rules requirement. They have voluntarily offered to remain as the applicants' controlling shareholders for a period longer than the current requirement, ranging between 15 months and four and a half years post listing, as they believe a longer lock-up period will help demonstrate their commitment to the applicant and that they are not listing the applicant due to the perceived premium attached to a listing status.

Consultation Proposals (see Chapter 3 for details)

Retain the track record requirement

27. GEM is primarily a market for small to mid-sized companies and GEM applicants are not expected to be as well established as Main Board applicants and many of them will have less developed businesses. As such, we believe that the current GEM track record requirement should not be heightened to such an extent that it no longer serves its purpose of allowing such companies to access the Hong Kong capital markets. Accordingly, we propose to maintain the current two-year track record requirement for GEM applicants.

Increase Cashflow Requirement

28. To ensure the GEM Listing Rules remain relevant while providing an adequate standard of shareholder protection, we propose to increase the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million. In doing so, we aim to improve the overall quality of GEM by attracting applicants with stronger cash flow performance. We believe the higher requirement will not be unduly onerous (see paragraph 24).
29. We invite suggestions on other potential quantitative tests for GEM admission to improve the overall quality of GEM listings.

Increase minimum market capitalisation requirement

30. To improve the quality of GEM applicants, in particular in light of market concerns on the liquidity of GEM issuers, we propose to increase the minimum market capitalisation at listing from HK\$100 million to HK\$150 million. We believe this proposal should not be unduly burdensome (see paragraph 25). We believe this proposal will also help address concerns relating to the open market requirement (see Section C).

Longer lock-up on controlling shareholders

31. We propose to increase the GEM post-IPO lock up requirement so that those persons identified as controlling shareholders cannot dispose of any of their interests in the GEM listed issuer within the first year of listing and cannot dispose of any interest in the subsequent year that would result in them no longer being controlling shareholders.
32. We note that there may be a concern that a longer post-IPO lock-up requirement on controlling shareholders will hinder an applicant's business development by delaying post-listing fundraising through issues of securities. In this respect, we believe that a GEM applicant should have considered its post-listing funding needs at the time of listing and make relevant disclosure in the listing document given that a GEM applicant is required to disclose its detailed plan to carry out its business objectives to cover the current financial year and the two financial years thereafter in its listing document.
33. Some believe a longer post-IPO lock-up requirement would extend controlling shareholders' post-listing commitment to an applicant to address the shell company creation issue. However, it may only indicate their commitment as at the time of listing and not the long-term intentions of controlling shareholders.

The Delegated Authority – for information only

34. The 2008 Rule Changes resulted in the delegation to the Listing Department of the authority to approve or reject GEM listing applications. This was done to streamline the listing process and shorten the time to listing for GEM applicants. However, since the 2008 Rule Changes, the Listing Department has been processing significantly more GEM listing applications than before, some of which have involved more complex issues than most applications to the Main Board and hence the time to listing for GEM applicants has not necessarily shortened. This means that the expected efficiencies of the Delegated Authority have not materialized. As mentioned, there have been comments that the current GEM requirements have been exploited by some market players. Consequently, we believe that the GEM listing approval process will benefit from the Listing Committee members' collective market expertise and that this outweighs the main disadvantage of imposing additional workload on the Listing Committee.
35. We will therefore unwind the Delegated Authority and return the power to approve or reject GEM listing applications to the Listing Committee.

The Delisting mechanism – for information only

36. The Exchange considers that the current delisting mechanism for GEM is generally effective and therefore does not require fundamental changes.
37. The Exchange is planning to consult the market regarding revisions to the delisting policy of both Main Board and GEM at a later date. Certain proposals in that consultation will aim to enhance the current GEM delisting mechanism.

C. OPEN MARKET REQUIREMENT

38. There are recent concerns that the shares of many GEM issuers lack an open market and their shareholdings are concentrated among a small group of shareholders, which result in the shares not being freely tradeable on the Exchange. This causes sharp movements in the share prices of such GEM issuers. It is believed that GEM's optional placing-only offering mechanism, low minimum number of shareholder requirement (100 public shareholders), low minimum public float value of securities (HK\$30 million) and low minimum market capitalisation (HK\$100 million) are the main causes of the issues leading to such concerns.
39. As compared with Small Cap MB Issuers, Selected GEM Issuers had a higher level of shareholding concentration, lower liquidity and higher price volatility. The main reason for these phenomena may be because Small Cap MB Issuers have a larger shareholder base at listing as they are required to conduct a public offering to list on the Main Board and have to meet the higher minimum number of public shareholder requirement under the Main Board Listing Rules

(i.e. 300 registered shareholders). Only 9% (11 of 121) of the Selected GEM Issuers listed through a combination of placing and public offering or public offering only.

40. There have been comments that some applicants manufacture their shareholder base, prior to listing, with controlling shareholders (and/or interested parties) allocating shares to placees (including “friends and family”) who are, in substance, under their control. The manufacturing of a shareholder base enables such persons to manipulate the price discovery process and facilitates the creation of potential shell companies for sale post listing. Furthermore, some retail investors complained that they are denied the opportunity to benefit from the potential upside gain upon the listing of some GEM issuers in placing-only IPOs.
41. Based on information available to us and from the allotment result announcements of Selected GEM Issuers, only a few Selected GEM Issuers placed shares to their employees and/or connected clients, and none of them placed shares to their core connected persons or existing shareholders or their respective close associates, despite such placings being allowed under the GEM Listing Rules as long as adequate disclosure is made in the listing document. However, placing to the “friends and family” of connected persons, collusion with “professional speculators” and “connected investors” through intermediaries may not be easily detected.
42. The 2017 Joint Statement noted the SFC’s observation in a recent review of GEM IPO placings that, in a number of placings, (a) the allocation of a substantial majority of the offered shares were attributable to a small proportion of the placing agents involved in the transaction, who placed those shares to a small number of placees (“**top placees**”), while (b) the remainder of the offered shares were placed in small quantities to a large number of placees. Even though the number of placees exceeded 100, the final allocation was substantially similar in effect to a placing of the offered shares only to the top placees and resulted in a high concentration of shareholdings among the top placees. In addition, the SFC has observed that a handful of investors repeatedly appeared as the top placees in otherwise unconnected GEM IPOs.
43. The 2017 Joint Statement stated that these market practices may undermine the open market requirement under GEM Listing Rule 11.23 and prevent an orderly, informed and efficient market for such securities to develop. The 2017 Joint Statement also stated that GEM Listing Rule 11.23 is clear that the minimum requirement of 100 public holders merely serves as a guideline. Meeting the minimum requirement alone does not mean that the open market requirement has been satisfied. Where the securities in the hands of the public are overly concentrated, the conditions for an open market may not exist even if such securities are held by 100 holders.

44. The 2017 Joint Statement made it clear that the SFC and/or the Exchange, where appropriate, will take appropriate actions with respect to any proposals whereby one or more persons take up or hold securities on behalf of, or otherwise act in accordance with the instructions of any person, with a view to avoiding the application of any GEM Listing Rule.
45. Since the publication of the 2017 Joint Statement and up to 31 March 2017, four GEM applicants announced the postponement of their placings and listing timetables as they required more time for the book-building process of the placing to ensure an open market for securities and to respond to regulators' related enquires. As of 31 May 2017, two of these applicants were listed through a combination of placing and public offering or public offering only. On 22 February 2017, one GEM issuer's shares were suspended after trading half a day after listing due to concern on whether there was an open market in its shares. The trading of the shares of this issuer was resumed approximately one month later upon the placing of an additional 5% of its shares, held by the controlling shareholders, to more than 400 placees.

Consultation Proposals (see Chapter 4 for details)

Mandatory public offering mechanism

46. One way to address the problem of high shareholding concentration at listing and its resulting issues, and to provide more certainty on how to comply with the requirement under GEM Listing Rule 11.23 that there must be an open market in the securities for which listing is sought is to introduce a mandatory public offering mechanism. This is emphasised in paragraph 14 of the SFC's statement dated 13 March 2017 "*Statement on recent GEM listing applicants*" which states that having a public offer tranche is more likely to achieve a shareholder base which ensures a fair and orderly market. We propose that a GEM applicant must make a public offer of at least 10% of its total offer size.
47. We note that the requirement to make a public offer would increase the listing expense of GEM applicants and lengthen the listing timetable. However, we believe that the benefits outweigh the costs because a mandatory public offering mechanism will result in a broader shareholder base and help reduce post-listing price volatility of GEM issuers.
48. We believe the proposed introduction of a mandatory public offering mechanism will not increase the risk exposure of retail investors, relative to investment in Main Board applicants, since GEM applicants are required to publish a prospectus to the same standard as that of Main Board applicants when making a public offer.

Align GEM requirements with Main Board requirements

49. To increase the level of safeguards to GEM shareholders, we propose to align the GEM requirement on (a) placing to core connected persons, connected clients and existing shareholders, and their respective close associates with that of Appendix 6 to the Main Board Listing Rules and Guidance Letter HKEX-GL85-16 on “*Placing to connected clients, and existing shareholders or their close associates, under the Rules*”; and (b) the allocation of offer shares between public and placing tranches and the clawback mechanism to make it consistent with that in Practice Note 18 to the Main Board Listing Rules with our proposed introduction of a mandatory public offering mechanism of at least 10% of the total offer size of all GEM IPOs.

Increase minimum public float value requirement

50. The average market capitalisation and offer size of Selected GEM Issuers (excluding those with significantly large market capitalisation of HK\$1,000 million or more at the time of listing) were HK\$274 million and HK\$69 million, respectively. In line with our proposal to increase the minimum market capitalisation of GEM issuers at listing (see paragraph 30), we propose to increase the minimum public float value of securities from HK\$30 million to HK\$45 million.

Interim Measures for GEM Applications

51. The Exchange’s proposed changes to the GEM admission requirements above are subject to the views of the market, and there is no certainty that the proposed changes will be adopted. In the meantime, applications for listing on GEM will continue to be processed in accordance with the GEM Listing Rules currently in force.
52. The Exchange acknowledges that since the proposals in this paper, if adopted, will raise the GEM admission requirements, there may be an influx of applications for listing on GEM while the consultation is ongoing. The Exchange’s vetting period for GEM listing applications may be longer during this period as a result of such possible influx.

D. PROPOSALS ON MAIN BOARD REQUIREMENTS

53. Our proposed amendments to the GEM Listing Rules in this paper, if adopted, will mean that the GEM listing requirements will be closer to or exceed the equivalent requirements of the Main Board. We have therefore reviewed and proposed to amend certain Main Board requirements to preserve the Main Board’s position as a market for larger companies.

54. The amendments to the Main Board Listing Rules on admission requirements were last consulted on by the Exchange in the 2002 Consultation Paper, which, among other things, considered the minimum market capitalisation, public float value and spread of shareholders requirements. In proposing to amend the Main Board Listing Rules, we aim to ensure that there is a clear distinction between issuers listed on GEM and the Main Board so that investors can choose investments that most closely match their investment goals.

Consultation Proposals (see Chapter 5 for details)

No changes to the current Profit Requirement

55. The Profit Requirement was implemented in September 1994 and was last subject to a public consultation in the 2002 Consultation Paper. In April 2010, the Listing Committee comprehensively reviewed the Main Board eligibility requirements and concluded that the Profit Requirement was generally a good indicator of a listing applicant's future profitability and that no significant changes to it were necessary. In June 2016, the Listing Committee considered the Profit Requirement again and decided that there did not appear to be compelling reasons to change it or replace it with a minimum cash flow requirement.
56. We therefore proposed no changes to the current Profit Requirement but seek the views of respondents on this matter.

Increase minimum market capitalisation requirement

57. We propose to increase the minimum market capitalisation requirement at the time of listing for Main Board applicants from at least HK\$200 million to at least HK\$500 million.
58. We believe that this proposal broadly reflects the growth of Main Board issuers since the last public consultation on this subject in 2002. The proposal will also position the Main Board closer to the minimum market capitalisation requirement of some of the Selected Overseas Main Markets (i.e. Nasdaq Global Select Market, NYSE and SGX).

Increase public float value requirement

59. As we propose to increase the minimum market capitalisation requirement at listing for Main Board applicants to HK\$500 million, we propose a proportionate increase in the minimum public float value requirement for Main Board applicants from HK\$50 million (25% of HK\$200 million) to HK\$125 million (25% of HK\$500 million).

Longer lock-up on controlling shareholders

60. We propose to increase the Main Board post-IPO lock up requirements to match with the corresponding proposal for GEM issuers in this paper, so that those persons identified as controlling shareholders cannot dispose of any of their interests in the Main Board issuer within the first year of listing and cannot dispose of any interest in the subsequent year that would result in them no longer being a controlling shareholder. However, as the concerns expressed in the 2016 Suitability Guidance letter may not apply to a large part of the Main Board given the larger size of its listing applicants and our proposal to raise the minimum market capitalisation requirement that they must meet, we seek views on whether it is appropriate to extend the post-IPO lock-up requirements for the Main Board to match the corresponding proposals for GEM.

Proposals for the Main Board to be independent from those of GEM

61. The proposals for the Main Board are aimed at preserving the status of the Main Board as a venue for larger companies. The Exchange consulted on a minor change to the eligibility requirements in September 2010 in its “Consultation Paper on Proposed Changes to the Minimum Number of Shareholders for the Market Capitalisation/Revenue Test” but the current Main Board eligibility requirements have not been the subject of substantial public consultation since 2002. We therefore believe that the proposals for the Main Board should be considered independently and should not be dependent on the outcome of the GEM proposals. However, we seek the market’s view on this matter.

Interim Measures for Main Board Applications

62. The Exchange’s proposed changes to the Main Board admission requirements above are subject to the views of the market, and there is no certainty that the proposed changes will be adopted. In the meantime, applications for listing on the Main Board will continue to be processed in accordance with the Main Board Listing Rules currently in force.
63. The Exchange acknowledges that since the proposals in this paper, if adopted, will raise the Main Board admission requirements, there may be an influx of applications for listing on the Main Board while the consultation is ongoing. The Exchange’s vetting period for Main Board listing applications may be longer during this period as a result of such possible influx.

E. TRANSITIONAL ARRANGEMENTS – FOR INFORMATION ONLY

64. We acknowledge that GEM issuers and GEM applicants may have chosen to list on GEM as a result of GEM’s current positioning as a “stepping stone” to the Main Board. We will put in place the following transitional arrangements in relation to GEM Transfers for GEM issuers and GEM applicants to minimise

the impact on stakeholders by allowing sufficient time for an applicant and issuer to comply with the more stringent rules if the proposals in this paper are adopted (see Chapter 6 for details):

- (a) all GEM Transfer applications submitted on or before the Amendment Effective Date will be processed under the current GEM Streamlined Process and their eligibility for the Main Board will be assessed in accordance with the Listing Rules currently in force (only one refreshed transfer application submitted after Amendment Effective Date be permitted pursuant to this arrangement); and
 - (b) Eligible Issuers will be given the Transitional Period to apply for a transfer to the Main Board with their eligibility for the Main Board assessed in accordance with the Main Board Listing Rules currently in force and in accordance with the transitional GEM Transfer arrangement below:
 - (i) relevant applicants that have changed their principal businesses and/or controlling shareholders since listing on GEM will be required to appoint a sponsor to conduct due diligence and publish a “prospectus standard” listing document as if they are new listing applicants to the Main Board; or
 - (ii) relevant applicants that did not experience any of the changes described in paragraph 64(b)(i) above will only need to prepare GEM Transfer announcements covering key areas in connection with their GEM Transfer. Such applicants are also required to appoint a sponsor to conduct due diligence in respect of the applicants’ activities during the most recent full financial year and up to the date of the GEM Transfer announcement to ensure that the information in the GEM Transfer announcement is accurate, complete and not misleading.
65. The sponsor for applicants in paragraph 64(b)(ii) is required to conduct due diligence in accordance with the standards expected of sponsors under paragraph 17 of the SFC’s Code of Conduct and the principles set out in paragraph 2 of Practice Note 21 to the Main Board Listing Rules in relation to the disclosures in the GEM Transfer announcement (for this purpose reference to the listing document in paragraph 2 of Practice Note 21 to the Main Board Listing Rules shall be substituted with reference to the GEM Transfer announcement). The sponsor is also expected to be closely involved in the preparation of the GEM Transfer announcement. As the applicant is not required to publish a listing document in connection with its GEM Transfer application, provisions of paragraph 17 referring to the preparation of a listing document, application proof, the contents of a listing document and an expert report will not apply. Additional guidance in the form of “Frequently Asked Questions” will be published by the SFC on this aspect.

CHAPTER 1 BACKGROUND OF GEM

1999 to July 2008

1. GEM was launched in November 1999 following the Hong Kong Special Administrative Region Chief Executive's 1998 policy address which committed to "study proposals for a venture board for smaller and emerging technology companies' stocks"¹.
2. The original purpose of GEM was to provide emerging companies with a capital formation platform and as an alternative market to the Main Board². In order to encourage the listing of emerging and growth companies, GEM was designed to have less stringent admission requirements than the Main Board and operate on an "enhanced disclosure based" regime with prominent "buyer beware" risk warnings in listing documents³.
3. The launch of GEM coincided with the "dot-com" boom of 1999/2000 and there was great enthusiasm for companies that held out the promise of growth⁴. However, after the "dot-com" bubble burst, many GEM issuers experienced a decline in their share prices and some experienced losses and/or long periods of suspension and their shares were often illiquid⁵. Overall, there was a loss of confidence in the GEM market and the number of new GEM listings and post-listing fund-raising activities for GEM issuers decreased⁶.
4. Against this background and considering GEM had been in operation for over six years, the Exchange began a review of GEM in 2005 and published the 2006 Discussion Paper to elicit views from the market on possible structural changes to GEM for its further development. The 2007 Consultation Paper stated that, although there was market support for the option of a new alternative market similar to AIM, the Hong Kong market was not considered ready for the AIM model given the distinctions between the Hong Kong and the United Kingdom markets in terms of investor base, tax concession regime and role of sponsors⁷.

¹ HKSAR Chief Executive, "1998 Policy Address", paragraph 42
² 1998 Consultation Paper, paragraph 2 of the Executive Summary
³ 1998 Consultation Paper, paragraph 6 of the Executive Summary
⁴ 2006 Discussion Paper, paragraph 24 of Chapter 2
⁵ 2006 Discussion Paper, paragraph 10 of Chapter 1
⁶ 2006 Discussion Paper, figures 1 and 2 of Appendix I
⁷ 2007 Consultation Paper, paragraphs 7 to 11 of the Executive Summary

July 2008 onwards

5. With effect from 1 July 2008, GEM was re-positioned from an alternative board for emerging and growth companies to a “stepping stone” to the Main Board⁸ to provide a listing channel for smaller companies, including H-share companies that could not meet the 4-5-6 Rule set by the Mainland authorities, to list on the Main Board⁹. As a result, most of the original features of GEM were repealed and many of the GEM Listing Rules were amended to align with those of the Main Board (see **Appendix III**). New quantitative admission requirements, less stringent than those of the Main Board, were introduced. Also, the power to approve or reject GEM listing applications was delegated by the Listing Committee to the Listing Department, and the GEM Streamlined Process was introduced for GEM Transfers. **Appendix II** sets out further details of the historical development of GEM.

Current Position

6. Since GEM was re-positioned in July 2008, the number of GEM issuers has increased from 189 at the time of the 2008 Rule Changes to 260 as of 31 December 2016 (involving 158 new GEM listings). The number of newly listed GEM issuers in each year has increased from nil in the second half of 2008 to 45 in 2016; and the amount of IPO fund raised by GEM issuers in each year has also increased (see **Appendix II**).
7. However, the share price of newly-listed GEM issuers in recent years had been more volatile – for example, the average first-day price gain (when compared with the IPO price) of GEM issuers listed in 2015 and 2016 was 743% and 530%, respectively (compared to 5% and 15% for Main Board issuers listed in the same period)¹⁰. 36 out of 45 GEM listings were conducted by placing only. Among these 36 GEM issuers, 30 recorded a price increase of 100% or more at the end of the first day trading, and the share price of 19 of these 30 GEM issuers subsequently dropped by more than 50%¹¹.
8. 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. There have also been comments that there is a need to ensure each market segment of our listing regime has a distinct identity of its own to cater for companies at different stages of development. The current Main Board and GEM admission requirements do not cater for pre-profit and early stage companies and there is currently no alternative market to

⁸ 2008 Consultation Conclusions, paragraph 2 of Part A: Introduction

⁹ 2006 Discussion Paper, paragraph 35(c) of Chapter 3

¹⁰ Published data from the HKEX website and Bloomberg

¹¹ Published data from the HKEX website and Bloomberg

nurture and assist the growth of such companies in order for them to mature and bring value to the securities market to maintain Hong Kong's competitiveness as an international financial centre.

CHAPTER 2 GEM'S POSITION AS A STEPPING STONE TO THE MAIN BOARD

Changing the Profile of GEM

1. The 2008 Rule Changes re-positioned GEM from an alternative board for emerging and growth companies to a “stepping stone” to the Main Board. **Appendix II** sets out further details of the historical development of GEM.
2. In recent years, concerns have been expressed on, among other things, the GEM Streamlined Process, with comments that the process may provide an opportunity for regulatory arbitrage between the Main Board and GEM which potentially impacts the overall quality of the Hong Kong market. This is because:
 - (a) applicants that are eligible to list on the Main Board can apply for a GEM listing instead, to make use of GEM's optional placing-only offering mechanism and lower public shareholder requirement without conducting a public offering, and then transfer to the Main Board at a later date;
 - (b) GEM's lower admission requirements, compared with those of the Main Board, may have been exploited by certain companies to access the Hong Kong capital markets for the premium attached to a listing status (rather than to develop their businesses) and this may have led to an increase in the number of potential shell companies listed on GEM;
 - (c) GEM's optional placing-only offering mechanism and small minimum public shareholder requirement at the time of listing may have led to a high concentration of shareholders, illiquid shares and increased price volatility post listing; and
 - (d) the GEM Streamlined Process is contrary to the objective of the sponsor regime implemented in October 2013 as it does not require the appointment of sponsor and the preparation of a listing document for GEM Transfers. This means that GEM Transfer applicants are not subject to a due diligence process as comprehensive as that for new applicants directly applying to be listed on the Main Board. Therefore, the GEM Streamlined Process does not provide sufficient shareholder protection and potentially affects the quality of the Main Board. Comments in the market are particularly concerned with those GEM Transfer applicants that have changed their controlling shareholders and/or principal businesses after listing on GEM¹².

¹² 37% (13) of the 35 GEM Transfer Applicants that successfully transferred to the Main Board from 2013 to 2016 had a change in controlling shareholder(s) and/or a change in the principal business from their GEM listing to the time of transfer

3. As an initial step to address one of the major concerns with GEM IPOs, on 20 January 2017, the SFC and the Exchange issued the 2017 Joint Statement regarding the price volatility of GEM stocks, and the SFC issued the SFC Guideline to provide guidance to sponsors, underwriters and placing agents on the standard of conduct that is expected of them in the listing and placing of GEM IPO stocks.
4. The following sets out findings that support our belief that GEM's "stepping stone" positioning has achieved limited success:
 - (a) although the number of GEM issuers has increased from 189 as of 1 July 2008 to 260 as of 31 December 2016 (involving 158 new GEM listings), only one H-share company has listed on GEM in 2015 since the 2008 Rule Changes and up to 31 December 2016;
 - (b) since the 2008 Rule Changes and up to 31 December 2016, the number of GEM Transfers per annum has not exceeded the 14 transfers that were completed in the second half of 2008 immediately after the implementation of the GEM Streamlined Process; and
 - (c) the total number of GEM Transfers compared to the total number of GEM issuers eligible for a GEM Transfer, decreased from 7.2% in second half 2008 to 2.7% in 2016.
5. In view of the limited success of GEM's "stepping stone" positioning and given the concerns that, among other things, the GEM Streamlined Process may provide an opportunity for regulatory arbitrage and potentially impacts the overall quality of the Hong Kong market, we have reviewed the "stepping stone" positioning of GEM and propose/will implement changes regarding:
 - A. GEM Transfer requirements; and
 - B. the names "Growth Enterprise Market" and 「創業板」.

New Board Proposal – For Information Only

6. Our proposals in this paper will, among other things, raise the GEM quantitative admission requirements and, if adopted, will mean that emerging companies will find it more difficult to list on GEM. While we believe that GEM continues to have a role in our market as a capital raising platform for small to mid-sized companies, it is acknowledged that measures will need to be taken to support capital raising by emerging companies which are pre-profit and early stage. In this connection, as part of its holistic review of the markets, HKEX has published today a "New Board" concept paper, which sets out its proposal for the establishment of a new board, separate from the Main Board and GEM, to broaden capital markets access in Hong Kong by opening up to a more

diverse range of issuers¹³. The commercial rationale for the new board and GEM is set out in that paper.

7. The proposals in this paper and those set out in the HKEX's "New Board" concept paper should be considered separately. However, HKEX recognises that there are certain interdependencies between the two proposals and that the responses to both papers will need to be considered viewed holistically in the final approach¹⁴.

A. GEM Transfer Requirements

Current Requirements

8. Main Board Listing Rule 9A.02(1) allows GEM issuers to transfer to the Main Board without de-listing from GEM and applying for a new listing on the Main Board, if they meet the Main Board listing requirements.
9. Main Board Listing Rule 9A.02(2) requires that an issuer may only apply for a GEM Transfer if it has published and distributed one full financial year of financial statements after the date of its initial listing.
10. Main Board Listing Rule 9A.09 sets out the information that must be included in a GEM Transfer announcement.
11. A GEM Transfer applicant is not required to engage a sponsor to conduct due diligence and issue a "prospectus-standard" listing document, both of which are required for a Main Board or a GEM new listing applicant¹⁵.

Issues and Findings

Rate of GEM Transfers

12. The number of GEM Transfers per annum has to date not exceeded the 14 transfers in the second half of 2008 immediately after the implementation of the GEM Streamlined process. The rate of GEM Transfers has been decreasing from 7.2% in the second half of 2008 to 2.7% in 2016 for eligible GEM Transfer applicants:

¹³ 2017 Concept Paper on New Board, paragraph 1 of the Executive Summary

¹⁴ 2017 Concept Paper on New Board, paragraph 17 of the Executive Summary

¹⁵ The enhanced sponsor regime implemented in October 2013 aims to ensure that sponsors thoroughly understand any company aspiring to access Hong Kong's public capital markets before a listing application is made. The emphasis is on early, comprehensive due diligence and a properly drafted prospectus to accompany a listing application

Table 1: Rate of GEM Transfers

Year / Period	Total no. of listed GEM issuers as of the preceding year / period end (a)	No. of GEM Transfers during the year / period (b)	Rate of GEM Transfers (b)/(a)¹⁶
2H2008	194	14	7.2%
2009	174	4	2.3%
2010	174	12	6.9%
2011	169	12	7.1%
2012	170	2	1.2%
2013	179	8	4.5%
2014	192	7	3.6%
2015	204	14	6.9%
2016	222	6	2.7%

Duration of listing on GEM prior to a GEM Transfer

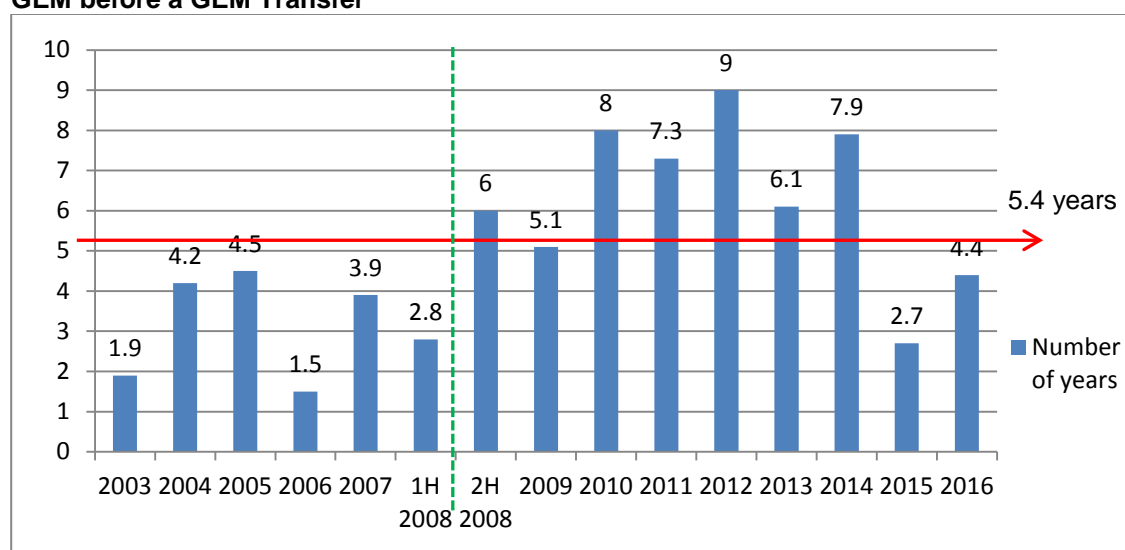
13. Of the 137 GEM Transfer Applicants from 2003 to 2016, 72% (99 of 137) successfully transferred to the Main Board whilst 28% (38 of 137) were unsuccessful.
14. The 99 successful GEM Transfer Applicants were listed on GEM for an average of 5.4 years. This is significantly longer than the minimum one full financial year requirement under the Main Board Listing Rule 9A.02(2). The number of years that an issuer is listed on GEM before transferring is shortening. 90% (18) of the 20 successful GEM Transfer Applicants in 2015 and 2016 were only listed on GEM for an average of two years¹⁷ before their transfers. There are comments that this phenomenon could be due to the larger premium attached to the listing status of a Main Board company (reported to be two times higher than that of a GEM company)¹⁸.

¹⁶ The total GEM Transfers in a year/ period divided by the total number of GEM issuers as of the preceding year end/ period (the preceding year is used as newly listed GEM issuers are required to publish one full financial year of financial statements after listing before eligible for a GEM Transfer under Main Board Rule 9A.02(2))

¹⁷ The remaining two successful GEM Transfer Applicants in 2015 and 2016 were listed on GEM for approximately 12 years and 17 years before their respective GEM Transfer

¹⁸ A Chinese-language news report on 13 July 2015

Chart 1: Average number of years successful GEM Transfer Applicants were listed on GEM before a GEM Transfer



Requirements in Other Jurisdictions

- Table 2 compares our GEM Transfer mechanism with those in the Selected Overseas Junior Exchanges: three of the six Selected Overseas Junior Exchanges (Catalist, Mothers and TSX Venture) have an upward transfer mechanism (i.e. transfer to the main market)¹⁹. The others require a full application process for a transfer to a higher board (see **Appendix V**).

Table 2: Comparison of transfer mechanisms of Selected Overseas Junior Exchanges and GEM

EXCHANGE	TRANSFER MECHANISM	SPONSOR REQUIREMENT
GEM	Yes, upward	No
AIM, ChiNext, NasdaqCX	No	N/A
Catalist	Yes, upward and downward	Yes ²⁰
Mothers	Yes, upward and downward	Yes
TSX Venture	Yes, upward and downward	Yes, but waived in most cases ²¹

¹⁹ Catalist, Mothers and TSX Venture also have a “downward” transfer mechanism which is not available in GEM

²⁰ Catalist issuers are monitored by sponsors at all times

²¹ TSX Venture publication: Graduation to TSX, Policy 2.2 Section 3 of TSX Corporate Finance Policies

Consultation Proposals

16. We believe that GEM continues to play a role in our market as a capital raising platform for small to mid-sized companies. However, in view of the limited success of the “stepping stone” positioning and given the concerns highlighted above, we propose to reform GEM by re-positioning it as a stand-alone board and hence removing the “stepping stone” mechanism and the GEM Streamlined Process for GEM Transfers. This means that GEM Transfer applicants will be required to appoint a sponsor and issue a “prospectus-standard” listing document²² to ensure appropriate due diligence²³ is performed and full disclosure is made (without requiring the applicant to conduct an offering). Accordingly, the application fee for a GEM Transfer will be same as that for new listing applications to the Main Board. All GEM Transfer applications will continue to be approved by the Listing Committee. We believe this proposal will address market concerns on the extent of due diligence to be performed on GEM Transfers and would provide more clarity on the financial condition and operation of the GEM Transfer applicants.
17. All GEM Transfer applicants must also have achieved the following before they can be considered for a GEM Transfer:
 - (a) published and distributed 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); and
 - (b) to align with sub-paragraph (a) above, not been subject to any disciplinary investigation by the Exchange in relation to a serious breach or potentially serious breach of any Listing Rules for 24 months (instead of the current requirement of 12 months).
18. We believe the above proposal will not be unduly disruptive as we note that the GEM Transfer Applicants that successfully transferred to the Main Board were listed on GEM for an average of 5.4 years before their transfers and 78% (62 out of 79) of the GEM issuers that were transferred to the Main Board from the second half of 2008 to 2016 had been listed on GEM for two full financial years or longer before their transfers.

²² These requirements were removed by the 2008 Rule Changes. 2008 Consultation Conclusions, paragraphs 86 and 98 of Part C, Proposals Adopted and Discussion of Specific Responses

²³ Expected to be performed in accordance with Practice Note 21 of the Main Board Listing Rules and Paragraph 17 of the SFC’s Code of Conduct

B. Renaming the “Growth Enterprise Market” and 「創業板」 – For Information Only

19. GEM Listing Rules 2.12 and 2.20 state that: given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Issues and Findings

20. Selected GEM Issuers had been in operation for an average of 15.4 years at the time of listing. Irrespective of whether GEM continues to be positioned as a “stepping stone” to the Main Board, the names “Growth Enterprise Market” and 「創業板」 are clearly not reflective of the type of applicants seeking to list on GEM – generally small to mid-sized companies with substantial operating history – and is also inconsistent with the description of GEM issuers as “emerging” companies under GEM Listing Rules 2.12 and 2.20.
21. We will therefore change the names “Growth Enterprise Market” and 「創業板」 to “GEM”; and amend GEM Rules 2.12 and 2.20 to better reflect the nature of GEM issuers. Corresponding changes will also be made to other parts of the GEM Listing Rules to reflect the new name.

Consultation Questions

Question 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)? Please give reasons for your views.

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.

CHAPTER 3 GEM ADMISSION REQUIREMENTS AND DELISTING MECHANISM

Background

1. When GEM was launched in 1999, it was made clear to the market that investment in GEM issuers would be riskier than investment in Main Board issuers given the greater uncertainty of the business performance of emerging companies and GEM's lower admission requirements²⁴. Accordingly, prominent risk disclosure statements²⁵ are required in the listing documents of GEM applicants and GEM investors are also required to sign a risk disclosure statement before dealing in GEM shares²⁶.
2. When GEM was re-positioned as a "stepping stone" to the Main Board in 2008, many of the GEM Listing Rules were amended to align with those of the Main Board, but the admission requirements remain less stringent²⁷. Accordingly, higher risks are still associated with GEM.
3. The Exchange has noted that in recent years there have been adverse market comments regarding the quality and performance of GEM issuers, including issues of high shareholder concentration, illiquidity and high volatility of GEM issuers. This has led to comments that GEM's lower admission requirements, compared with those of the Main Board, are being exploited by poorer quality companies to gain easy access to the Main Board by listing on GEM first.
4. There have been a number of issuers where their controlling shareholders either changed or have gradually sold down their interests in the issuers shortly after the expiry of the regulatory lock-up period following listing. The Exchange believes that such behaviour is the result of the continuous increase in the premium attached to the listing status of companies in Hong Kong. This led to the Exchange issuing the 2016 Suitability Guidance Letter to address such issue.
5. This chapter puts forward proposals regarding the following topics with the aim of improving the overall quality of GEM:
 - A. The track record requirement;
 - B. The Cashflow Requirement;

²⁴ 1998 Consultation Paper, paragraph 3 of the Executive Summary

²⁵ GEM Listing Rules 2.12 and 2.20

²⁶ SEHK News Release dated 25 February 2000 "The Exchange urges investors to sign the Risk Disclosure Statement before dealing in GEM shares"

²⁷ 2008 Consultation Conclusions, paragraph 10 of Part B: Overview of Market Response

- C. The minimum market capitalisation requirement;
- D. The post-IPO lock-up requirement;
- E. The Delegated Authority; and
- F. The delisting mechanism.

A. The Track Record Requirement

Current Requirement

- 6. GEM Listing Rule 7.03(1)(a) requires a GEM applicant to include, in its listing document, financial results for at least the two financial years immediately preceding the issue of that document.

Issues and Findings

Perceived circumvention of Main Board Listing Rules by GEM Applicants

- 7. We believe the likelihood that GEM's shorter track record period requirement (two instead of three financial years)²⁸ and less stringent financial requirement (Cashflow Requirement compared to the Profit Requirement) have been abused to circumvent the Main Board's initial listing requirements is low based on the following observations:
 - (a) based on the Selected GEM Issuers' listing documents and relevant submissions²⁹, only 6% (7 of 121) of these issuers appeared to have met the Profit Requirement and thus potentially qualified for a Main Board listing at the time of their GEM listing applications, and only one of these issuers transferred to the Main Board shortly (approximately two years) after listing on GEM; and
 - (b) based on the financial information disclosed in listing document together with the first annual report published after listing or the profit forecast memorandum submitted with the listing applications, 79% (95 of 121) of Selected GEM Issuers still could not meet the Profit Requirement a year after listing.

²⁸ GEM Listing Rule 7.03(1)(a)

²⁹ Under GEM Listing Rules 7.01 and 7.03(1)(a), applicants are only required to present two-year full financial year results and a stub-period financial result, where applicable. We do not have the three-year audited financial information for 23% (28 of 121) of Selected GEM Issuers at the time of their listing on GEM as there is no requirement for this to be provided

8. We take the view that since GEM is primarily a market for small to mid-sized companies, GEM applicants are not expected to be as well established as Main Board applicants and many of them will have less developed businesses. We believe that the current GEM track record requirement should not be heightened to such an extent that it no longer serves its purpose of allowing such companies to access the Hong Kong capital markets. Accordingly, we propose to maintain the current two-year track record requirement for GEM applicants.
9. We considered prohibiting an applicant to list on GEM if it has at least a three-year financial track record and, based on the information available, is able or appears to be able to meet the Profit Requirement. We decided not to pursue this proposal because it would be unduly onerous on GEM applicants and their sponsors to prepare at least three years of audited financial statements in order to demonstrate whether the applicant is eligible for a Main Board listing. This would have the effect of imposing additional time and cost for a GEM listing that would be equivalent to that of the Main Board. We will however continue to require such GEM applicants to justify their decisions to list on GEM instead of the Main Board when there is indication in its GEM listing application that the applicant could potentially list on the Main Board.

B. The Cashflow Requirement

Current Requirement

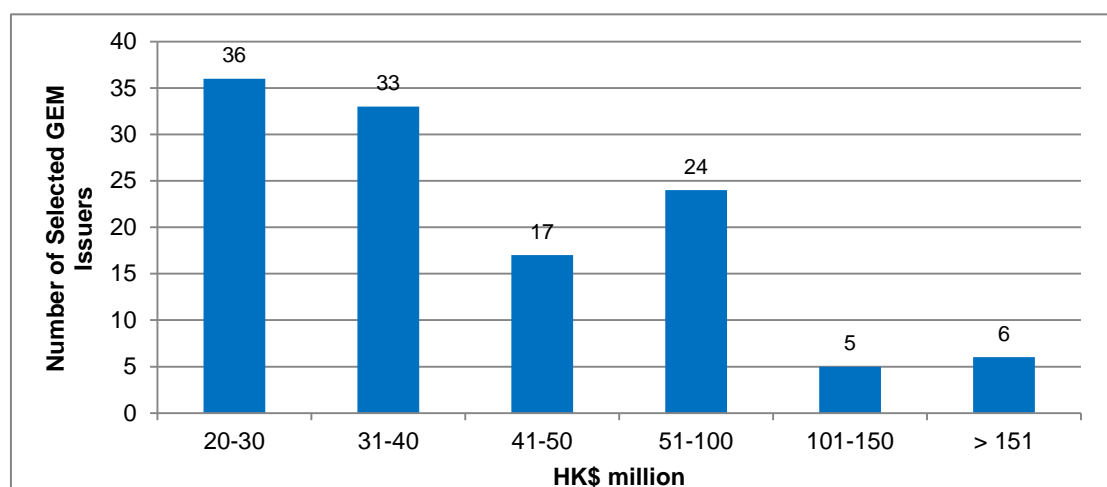
10. GEM Listing Rule 11.12A(1) requires a listing applicant to have an adequate trading record of at least two financial years with positive cash flow generated from operating activities in the ordinary and usual course of business, before changes in working capital and taxes paid, of at least HK\$20 million.

Issues and Findings

11. The Cashflow Requirement was introduced almost nine years ago to replace the previous requirement for a GEM applicant to demonstrate “active business pursuits” only. It was believed that cash flow is a good indication of business viability as compared to, for example, the profit and revenue tests for Main Board applicants, and is a well explained accounting concept³⁰.
12. Based on our analysis, 70% (85 of 121) of Selected GEM Issuers recorded aggregate operating cash flow before changes in working capital of HK\$30 million and above (i.e. at least 1.5 times the Cashflow Requirement of HK\$20 million) in the last two financial years immediately before they were listed on GEM, as illustrated below:

³⁰ 2008 Consultation Conclusions, paragraphs 16 to 20 of Part C: Proposals Adopted and Discussion of Specific Responses

Chart 2: Aggregate operating cash flow before changes in working capital during track record period of Selected GEM Issuers



Requirements in Other Jurisdictions

- Selected Overseas Junior Exchanges adopt different financial eligibility requirements. For example, those of ChiNext (revenue and profit requirements), NasdaqCX and TSX Venture Tier 2 (revenue/ working capital/ asset requirements) are not directly comparable with the Cashflow Requirement; whereas AIM and Catalist do not have any financial eligibility requirements for admission to listing as they both are regulated by nominated advisers/ sponsors which act as gatekeepers, advisers and regulators to the issuers (see **Appendix V**).

Consultation Proposals

- We maintain the view that cash flow remains an appropriate indicator of business viability for small and mid-sized companies as compared to the profit and revenue tests for Main Board applicants. We therefore propose increasing the Cashflow Requirement from at least HK\$20 million to at least HK\$30 million. This proposal can improve the overall quality of GEM by attracting applicants with stronger cash flow performance. We believe this will not be unduly onerous as 70% of Selected GEM Issuers recorded aggregate operating cash flow before changes in working capital of HK\$30 million and above.
- We invite suggestions on other potential quantitative tests for admission to GEM that could be imposed to improve the overall quality of GEM.

C. The Minimum Market Capitalisation Requirement

Current Requirements

16. GEM Listing Rule 11.23(2) requires the market capitalisation of equity securities in public hands to be at least HK\$30 million and there must be an adequate spread of holders of such securities.
17. GEM Listing Rule 11.23(6) requires the expected total market capitalisation of a new applicant at the time of listing to be at least HK\$100 million.

Issues and Findings

18. We note that there are concerns that the shareholding of many GEM issuers lack an open market and are concentrated among a small group of shareholders, which results in the shares not being freely tradeable. The limited supply of the shares in turn may cause sharp movements in the share prices of such GEM issuers. The low minimum market capitalisation requirement of GEM is suggested as one of the main causes of such issues (see Chapter 4).
19. The current market capitalisation requirement was introduced almost nine years ago³¹. Based on our observations, the average market capitalisation at the time of listing of Selected GEM Issuers was HK\$274 million³². 88% (107 of 121) of Selected GEM Issuers had market capitalisation of HK\$150 million or above at the time of listing.

Requirements in Other Jurisdictions

20. Table 3 below compares our minimum market capitalisation requirement with those in the Selected Overseas Junior Exchanges. Most of the Selected Overseas Junior Exchanges have tests that are not directly equivalent to GEM's minimum market capitalisation requirement. These exchanges either have a standalone share capital requirement or a combination of market capitalisation requirement and other financial performance requirements (see **Appendix V**).

³¹ 2008 Consultation Conclusions, paragraphs 22 and 23 of Part C: Proposals Adopted and Discussion of Specific Responses

³² Seven Selected GEM Issuers with market capitalisation at the time of listing of HK\$1,000 million or more were excluded

Table 3: Comparison of minimum market capitalisation requirements of Selected Overseas Junior Exchanges and GEM

EXCHANGE	MINIMUM MARKET CAPITALISATION (HK\$m)
GEM	100
AIM	No requirement
Catalist	No requirement
ChiNext ³³	35
Mothers	72
NasdaqCX ³⁴	388
TSX Venture	No requirement

Consultation Proposals

21. To improve the quality of GEM applicants, in particular in light of market concerns on the liquidity of GEM issuers, we propose to increase the minimum market capitalisation at listing from HK\$100 million³⁵ to HK\$150 million. We believe this proposal should not be unduly burdensome given that 88% (107 of 121) of Selected GEM Issuers had initial market capitalisation of or above HK\$150 million at listing. We believe this proposal will also help address concerns relating to the open market requirement (see Chapter 4).

D. The Post-IPO Lock-up Requirement

Current Requirements

22. GEM Listing Rule 1.01 defines controlling shareholder as any person who is or group of persons who are together entitled to exercise or control the exercise of 30% (or such other amount as may from time to time be specified in the SFC's Code on Takeovers and Mergers and Share Repurchases as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the issuer or who is or are in a position to control the composition of a majority of the board of directors of the issuer.
23. GEM Listing Rule 11.06 requires that both the issuer and its business must, in the opinion of the Exchange, be suitable for listing.
24. GEM Listing Rule 11.15 requires that a new applicant must clearly set out its business objectives and explain how it proposes to achieve them.

³³ Shenzhen Stock Exchange requires that a listing applicant's share capital has a value of at least RMB30 million (HK\$36 million) after issuance

³⁴ Required under Market Value of Listed Securities Standard, but not required under the Net Income Standard or the Equity Standard

³⁵ GEM Rule 11.23(6)

25. GEM Listing Rule 13.16A(1) restricts controlling shareholders of a listing applicant from disposing of their equity interest (a) within six months from the date of listing; and (b) within the next six months such that they cease to be the applicant's controlling shareholders.
26. The 2016 Suitability Guidance Letter sets out seven characteristics of potential shell companies and requires listing applicants that exhibit some of these characteristics to provide the Exchange with a robust analysis to substantiate that the applicant is suitable for listing.

Issues and Findings

27. Controlling shareholders of GEM applicants are expected to use GEM as a platform to develop their underlying businesses or assets rather than for the perceived premium attached to the listing status of their companies.
28. The Exchange believes that companies listing for the purpose of the perceived premium attached to the listing status will invite speculative trading activities when identified by potential buyers. This in turn can lead to opportunities for market manipulation, insider trading and unnecessary volatility in the market post-listing, none of which is in the interest of the investing public. Furthermore, activities by such companies may be structured so that they are not subject to regulatory scrutiny under the Listing Rules, guidance on reverse takeovers³⁶, and guidance on cash companies³⁷. The Exchange's publication of the 2016 Suitability Guidance Letter is intended to address this issue.
29. There have been suggestions that the GEM post-IPO lock up requirement on controlling shareholders should be increased to partially address the issue on the creation of potential shell companies by requiring controlling shareholders to have a longer commitment period to the applicant.
30. Of the 79 GEM applications submitted since the publication of the 2016 Suitability Guidance Letter on 3 June 2016 and up to 31 December 2016, 44% (35) of these GEM applicants' controlling shareholders have volunteered to lock up their equity interests in the GEM applicant for a longer period than the GEM Listing Rules requirement. These controlling shareholders have voluntarily offered to remain as the applicants' controlling shareholder for a period longer than the current requirement, ranging between 15 months and four and a half years post listing. They have done so with the stated intention that a longer lock-up period will help demonstrate their commitment to the applicant and that they are not listing the applicant due to the perceived premium attached to a listing status.

³⁶ Main Board Listing Rule 14.06 and Guidance Letter HKEX-GL78-14 "*Guidance on application of the reverse takeover requirements*"

³⁷ Guidance letter HKEX-GL84-15 "*Guidance on cash company rules*"

Requirements in Other Jurisdictions

31. Table 4 compares GEM's post-IPO lock-up requirement with those in the Selected Overseas Junior Exchanges. The practices of these exchanges vary regarding the locking-up of shareholdings after listing. The post-IPO lock-up arrangements for controlling shareholders or related parties in the Selected Overseas Junior Exchanges range from no requirement to 36 months. GEM's current one-year post-IPO lock-up requirement on controlling shareholders is broadly comparable with those of AIM and Catalist (see **Appendix V**).

Table 4: Comparison of post-IPO lock-up requirements of Selected Overseas Junior Exchanges and GEM

EXCHANGE	LOCK-UP REQUIREMENTS
GEM	Controlling shareholders are prohibited from disposing of shares in the issuer: (a) in first six months post- listing; or (b) in the subsequent six months where a disposal would result in that person or group of persons ceasing to be a controlling shareholder(s)
AIM	12 months lock-up on related parties
NasdaqCX	No lock-up in federal laws or exchange rules but market practice is for the underwriter to require 180 day lock-up of shares owned by insiders
Catalist	Up to 12 months lock-up depending on shareholder type and holdings
ChiNext	36 months lock-up on controlling shareholders with 30% interest or more
Mothers	No requirement
TSX Venture	Tier 1: up to 18 months lock-up on senior officers and major shareholders, i.e. those holding more than (a) 20% interest in the company or (b) 10% interest and have appointed one or more directors/senior officers; and Tier 2: up to 36 months lock-up on senior officers and major shareholders

Consultation Proposals

32. We propose to increase the GEM post-IPO lock up requirement so that those persons identified as controlling shareholders cannot dispose of any of their interests in the GEM issuer within the first year of listing and 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. We believe this period is reasonable given that a two-year post-IPO lock-up period is in

line with the two-year disclosure requirement of an applicant's strategic plan in the listing document under the GEM Listing Rules³⁸.

33. We note that there may be a concern that a longer post-IPO lock-up requirement on controlling shareholders will hinder an applicant's business development by delaying post-listing fundraising through issues of securities. In this respect, we believe that a GEM applicant should have considered its post-listing funding needs at the time of listing and made relevant disclosure in the listing document given that a GEM applicant is required to disclose its detailed plan to carry out its business objectives to cover the current financial year and the two financial years thereafter in its listing document³⁹.
34. Some believe a longer post-IPO lock-up requirement would extend controlling shareholders' post-listing commitment to an applicant to address the shell company creation issue. However, it may only indicate their commitment as at the time of listing and not the long-term intentions of controlling shareholders.

E. The Delegated Authority – For Information Only

Current Requirement

35. GEM Listing Rule 3.05 provides that the Listing Department will approve or reject a GEM listing application.

Issues and Findings

36. The 2008 Rule Changes resulted in the delegation to the Listing Department of the authority to approve or reject GEM listing applications. This was done to streamline the listing process and shorten the time to listing for GEM applicants. However, since the 2008 Rule Changes, the Listing Department has been processing significantly more GEM listing applications than before, some of which have involved more complex issues than most applications to the Main Board and hence the time to listing for GEM applicants has not necessarily shortened. This means that the expected efficiencies of the Delegated Authority have not materialized.
37. We believe the GEM approval process, including the assessment of an applicant's suitability for listing since the introduction of the 2016 Suitability Guidance Letter, will benefit from the Listing Committee members' collective market expertise despite the increase in the Listing Committee's workload⁴⁰.

³⁸ GEM Listing Rule 11.15

³⁹ GEM Listing Rule 14.19(2)

⁴⁰ Based on statistics from 2013 to 2016, there was on average 43 GEM applications considered by the Listing Department per year. Assuming four applications are heard in a Listing Committee hearing each week, it is estimated that approximately 11 additional Listing Committee meetings would be required in a year to approve the GEM applications

We consider this should not be unduly burdensome as the Listing Department will continue to:

- (a) vet the listing applications prior to presenting them to the Listing Committee and highlight to the Listing Committee all major issues for deliberation and consideration; and
- (b) reject cases which are clearly not eligible or suitable for listing.

Requirements in Other Jurisdictions

- 38. The authority to approve listing applications rests with the local listing authorities of the Selected Overseas Junior Exchanges, except for AIM and Catalist where issuers are overseen by nomads/sponsor. Listing applications to ChiNext are approved by a committee comprising China Securities Regulatory Commission, the PRC listing authority, and non-government experts (see **Appendix V**).
- 39. We will unwind the Delegated Authority and return the power to approve or reject GEM listing applications to the Listing Committee.

F. The Delisting Mechanism – For Information Only

Current Requirements

- 40. Under GEM Listing Rule 9.14, the Exchange may, if it considers it necessary for the protection of investors or the maintenance of an orderly market, at any time cancel the listing of any securities under any circumstances including:
 - (a) the circumstances set out in GEM Listing Rule 9.04 which are (i) receivership or liquidation of the issuer; (ii) failure to maintain sufficient public float; (iii) failure to maintain sufficient level of operations or assets; (iv) the issuer is no longer suitable for listing; (v) severe breach of the GEM Listing Rules; (vi) dealings in issuers' securities may impair the integrity and reputation of the market; (vii) development of a false market for the issuers' securities; and (viii) insider information; and
 - (b) continuous suspension for a prolonged period without the issuer taking adequate action to obtain a restoration of the listing.
- 41. Without prejudice to GEM Listing Rule 9.14, GEM Listing Rule 9.15 requires the Exchange to give a notice ordinarily of six months to a GEM issuer to require it to remedy or submit to the Exchange proposals to remedy the matters that gave rise to the Exchange's proposal to cancel the listing before the Exchange exercises its right to cancel a listing on GEM.

Issues and Findings

42. As compared with the Main Board, fewer GEM issuers have been suspended for a prolonged period. As of 31 December 2016, there were three GEM issuers (1% of total 260 GEM issuers), as compared to 53 Main Board issuers on the same date (3% of total 1,713 Main Board issuers), whose securities had been suspended from trading for three months or longer, of which:
- (a) two issuers have been served Delisting Notices due to insufficient level of operations or assets and other reasons and both have been suspended from trading for over 36 months. One was delisted in February 2017 and the other is in the process of implementing its resumption proposal; and
 - (b) one issuer has been suspended for over 18 months due to potential irregularities which raise management integrity concerns and corporate misconduct. No Delisting Notice has been served on this issuer.
43. In view of the above, the Exchange considers that the current delisting mechanism for GEM is generally effective and therefore does not require fundamental changes.
44. The Exchange is planning to consult the market regarding revisions to the delisting policy of both the Main Board and GEM at a later date. Certain proposals in that consultation will aim to enhance the current GEM delisting mechanism.

Consultation questions:

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.

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.

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.

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.

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.

CHAPTER 4 OPEN MARKET REQUIREMENT

Current Requirements

Adequate Spread of Holders

1. GEM Listing Rule 11.23 states that there must be an open market in the securities for which listing is sought. GEM Listing Rule 11.23(2) further explains that, among other things, for all equity securities except for warrants, there must, as of the time of listing, be an adequate spread of holders of such securities. The number will depend on the size and nature of the issue but, as a guideline, the equity securities in the hands of the public should, as of the time of listing, be held among *at least* 100 persons (including those whose equity securities are held through Central Clearing and Settlement System).
2. GEM Listing Rule 11.23(2) is clear that the minimum requirement of 100 public holders only serves as a guideline. Meeting the minimum requirement alone does not mean that the GEM Listing Rule 11.23 requirement for an open market has been satisfied.
3. GEM Listing Rule 11.23(8) states that not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders.
4. GEM Listing Rule 11.23(9) states that the total securities of an issuer held by the public (on all regulated market(s) including the Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares and the class of securities for which listing is sought must not be less than 15% of the issuer's total number of issued shares, having an expected market capitalisation at the time of listing of not less than HK\$30,000,000.
5. Nominees, who take up or hold securities in a placing on behalf of other persons who are the ultimate beneficial owners, cannot be regarded as distinct placees. This should be taken into account when assessing the adequacy of spread of holders of these equity issues.

Shares "in public hands"

6. It is a requirement that a minimum prescribed percentage of the offered securities be in public hands. The GEM Listing Rules set out provisions regarding when a holder would not be considered to be a member of "the public" or when securities would not be considered as being "in public hands"⁴¹.

⁴¹ Note 2 to GEM Listing Rule 11.23(11) provides that, "The Exchange will not regard at any time, (a) in relation to an issuer other than a PRC issuer, and other than any subsidiaries of a PRC issuer, a director, chief executive or substantial shareholder of such issuer or any of its

7. Consistent with the intention of the GEM Listing Rules to have an adequate spread of shareholders at listing to ensure that there is an open market in the securities, a placee who receives any direct or indirect benefit, whether financial or otherwise, from any person referred to in note 2 to GEM Listing Rule 11.23(11) in exchange for taking up the placing securities would not be regarded as a member of the “public” and any securities held by such person would not be “in public hands” for the purposes of GEM Listing Rule 11.23.

Preferential Treatment

8. With regard to any securities proposed to be placed by a new applicant, no preferential terms or treatment as to price or otherwise may be afforded to any placee unless adequate disclosure of such terms or treatment is made in the listing document. The listing document must at least disclose the information required in GEM Listing Rule 13.02(1)⁴². The Exchange reserves the right to reject any such proposed arrangements⁴³. For the avoidance of doubt, this provision applies whether or not the preferential terms are offered by new applicants or other persons (e.g. underwriters or placing agents) or whether or not placees are persons referred to in notes 1 and 2 to GEM Listing Rule 10.12.
9. Preferential terms or treatment may include a guaranteed allocation, an unusually large allocation, an agreement to allocate securities in another IPO, a waiver or rebate of brokerage commission, a put option or offer to repurchase the offered securities after the listing or any other arrangement entered into on a non-arm’s length basis in exchange for placees taking up the offered securities.

subsidiaries or a close associate of any of them; or (b) in relation to a PRC issuer, a promoter, director, supervisor, chief executive or substantial shareholder of the PRC issuer or any of its subsidiaries or a close associate of any of them as a member of “the public” or shares held by any such person as being “in public hands”.

Note 3 to GEM Listing Rule 11.23(11) provides that, “The Exchange will also not recognise as a member of “the public”:- (a) any person whose acquisition of securities has been financed directly or indirectly by a person referred to in note 2 above; or (b) any person who is accustomed to taking instructions from a person referred to in note 2 above in relation to the acquisition, disposal, voting or other disposition of securities of the issuer registered in his name or otherwise held by him.”

⁴² SFC Guideline paragraph 11(a)(v)

⁴³ GEM Listing Rules 10.12(3) and 13.02(1)

Placing-only Mechanism

10. GEM Listing Rule 10.12 allows GEM applicants to have the option to conduct placing-only offerings. Public offering is not mandatory as GEM issuers are not anticipated to have large public demand⁴⁴. Under the current practice, issuers are allowed to reallocate shares from the public tranche to the placing tranche in the event there is insufficient demand in the public tranche⁴⁵.

Issues and Findings

11. When GEM was launched in 1999, it was made clear to the market that there may be concerns regarding illiquid trading, possible inappropriate behavior and market manipulation⁴⁶. It was decided that the potential benefits of GEM (i.e. encouraging investment in small companies, educating corporate governance in these small companies and offering economic benefit to Hong Kong)⁴⁷ would outweigh these concerns.
12. When GEM was re-positioned in 2008, the market supported the Exchange's proposal not to require a mandatory public offer tranche, which was considered not cost-effective for most GEM companies⁴⁸ and unnecessary as the small size of GEM companies was unlikely to have significant public demand in practice⁴⁹. It was therefore decided that GEM companies should be allowed flexibility in determining the offering mechanism.

Shareholding Concentration

13. There are recent concerns that the shares of many GEM issuers lack an open market and their shareholdings are concentrated among a small group of shareholders, which result in the shares not being freely tradeable on the Exchange. This causes sharp movements in the share prices of such GEM issuers. It is believed that GEM's optional placing-only offering mechanism, low minimum number of shareholder requirement (100 public shareholders)⁵⁰, low minimum public float value of securities (HK\$30 million)⁵¹ and low minimum market capitalisation (HK\$100 million)⁵² are the main causes of the issues leading to such concerns.

⁴⁴ 2008 Consultation Conclusions, paragraphs 49 to 51 of Part C: Proposals Adopted and Discussion of Specific Responses

⁴⁵ Similar to the clawback mechanism under Practice Note 18 to the Main Board Listing Rules

⁴⁶ 1998 Consultation Paper, paragraphs 4 and 19.1

⁴⁷ 2006 Discussion Paper, page 18 of Appendix I

⁴⁸ 2007 Consultation Paper, Table 2, paragraph 87 of Chapter 3

⁴⁹ 2008 Consultation Conclusions, paragraph 50 of Part C: Proposals Adopted And Discussion Of Specific Responses

⁵⁰ GEM Listing Rule 11.23(2)(b)

⁵¹ GEM Listing Rule 11.23(9)

⁵² GEM Listing Rule 11.23(6)

14. Selected GEM Issuers had a higher level of shareholding concentration than Small Cap MB Issuers as evidenced by the following:
- (a) the SFC issued more High Concentration Announcements on Selected GEM Issuers than Small Cap MB Issuers⁵³;
 - (b) the average number of placees for both Selected GEM Issuers and Small Cap MB Issuers was approximately 150. Only 9% (11 of 121) of the Selected GEM Issuers listed through a combination of placing and public offering or public offering only⁵⁴. Small Cap MB Issuers have a larger shareholder base at listing because they are required to conduct a public offering⁵⁵ to list on the Main Board and have to meet the higher minimum number of public shareholder requirement under the Main Board Listing Rules (i.e. 300 registered shareholders⁵⁶); and
 - (c) shares placed by Selected GEM Issuers were concentrated among a small number of placees as evidenced by the top 25 placees of Selected GEM Issuers, on average, were allocated 90% of the placing shares⁵⁷.

⁵³ 13% of Selected GEM Issuers vs. 11% of Small Cap MB Issuers. In addition, a total of 118 High Concentration Announcements were issued on 111 issuers from 2009 to 2016, of which 83 announcements were to 76 Main Board issuers (representing approximately 4% of the 1,713 Main Board issuers as of 31 December 2016) and 35 announcements were to 35 GEM issuers (representing approximately 13% of the 260 GEM issuers as of 31 December 2016)

⁵⁴ 10 Selected GEM Issuers (1 listed in 2013, 1 listed in 2014 and 8 listed in 2016) conducted a combination of public offering and placing of shares; and one Selected GEM Issuer conducted a public offering in 2016. All the other GEM issuers were listed by placing only

⁵⁵ Under Main Board Listing Rule 7.10, the Exchange may not permit a new applicant to be listed by way of a placing if there is likely to be significant public demand for the securities. There is no similar requirement for GEM

⁵⁶ Main Board Listing Rule 8.08(2)

⁵⁷ GEM Listing Rules 10.12(4) requires specific disclosure in the allotment result announcement on the concentration of the placing shares, while the Main Board Listing Rules do not require such disclosure

Liquidity and Price Volatility

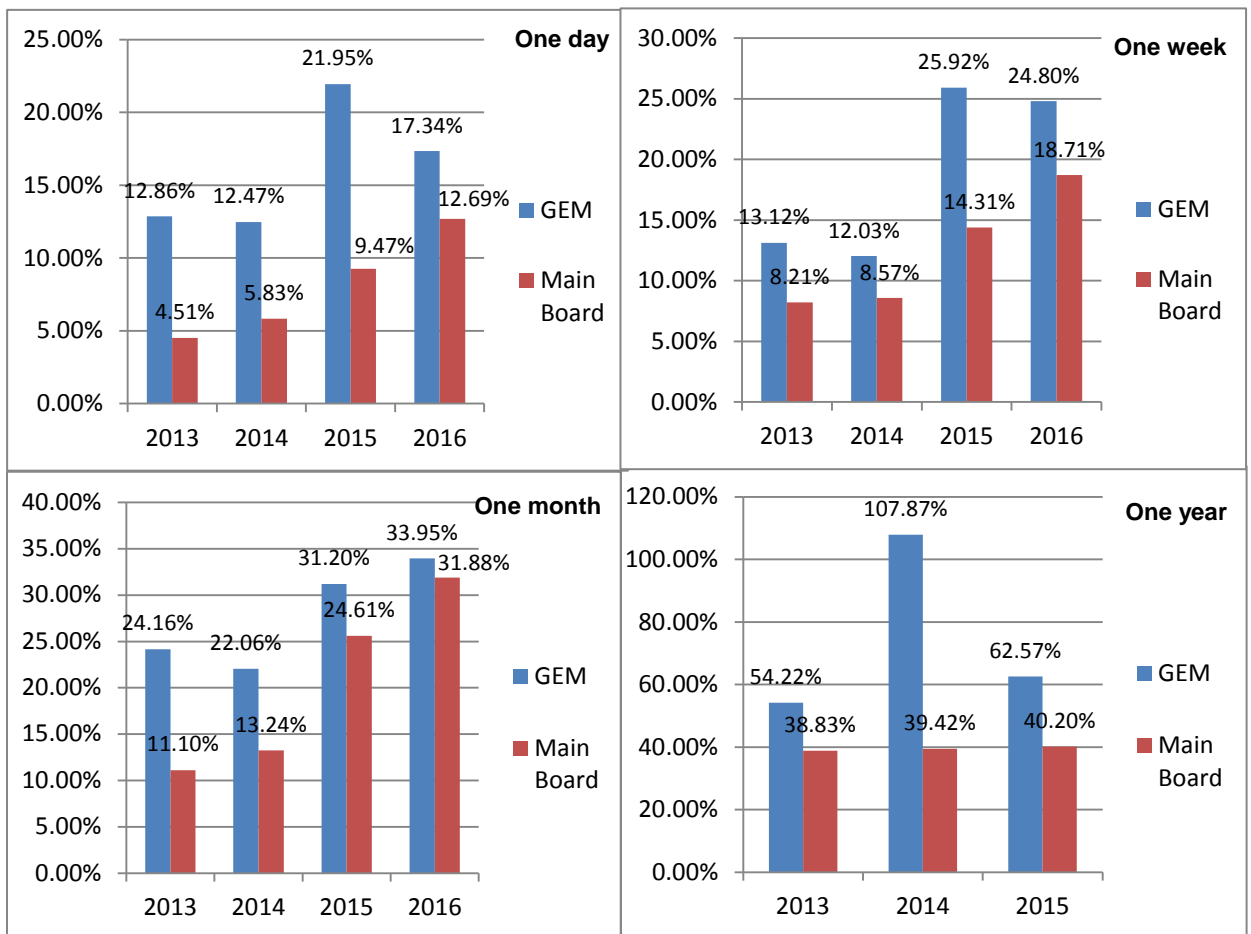
15. Based on the average daily trading volume as a percentage of total issued capital over one day, one week and one month from listing, we found Selected GEM Issuers had lower liquidity levels compared to Small Cap MB Issuers:

Table 5: Liquidity of Selected GEM Issuers and Small Cap MB Issuers

Period from listing	Selected GEM Issuers	Small Cap MB Issuers
1 Day	5.4%	18.8%
1 Week	6.4%	18.7%
1 Month	10.3%	23.9%

16. Selected GEM Issuers experienced higher price volatility than Small Cap MB Issuers as evidenced in Chart 3 below:

Chart 3: Price volatility of Selected GEM Issuers and Small Cap MB Issuers (benchmarked against the S&P HKEX GEM Index)



Placing to Selected Individuals

17. There have been comments that some applicants manufacture their shareholder base, prior to listing, by controlling shareholders (and/or interested parties) allocating shares to placees (including “friends and family”) who are, in substance, under their control. The manufacturing of a shareholder base enables such persons to manipulate the price discovery process and facilitates the creation of potential shell companies for sale post listing⁵⁸.
18. Due to GEM’s placing-only offering mechanism, these parties are also able to acquire shares at the offer price and then sell the shares in the secondary market at higher prices and enjoy gains on the first day of trading. There also have been complaints from retail investors that they are denied the opportunity to benefit from the potential upside gain upon the listing of some GEM issuers in placing-only IPOs.
19. Based on information available to us and from the allotment result announcements of Selected GEM Issuers, only a few Selected GEM Issuers placed shares to their employees and/or connected clients, and none of them placed shares to their core connected persons or existing shareholders or their respective close associates, despite such placings being allowed under the GEM Listing Rules as long as adequate disclosure is made in the listing document. However, placing to the “friends and family” of connected persons, collusion with “professional speculators” and “connected investors” through intermediaries may not be easily detected.

Open Market

20. An open market is not a concept that can be definitively defined by “bright line” criteria. GEM Listing Rule 11.23 sets out certain guidelines in the form of requirements expected to be satisfied.
21. The current concerns regarding the price volatility of GEM stocks may negatively impact on Hong Kong’s position as an international financial centre. This prompted the Exchange and SFC to issue the 2017 Joint Statement and SFC Guideline.
22. The 2017 Joint Statement noted the SFC’s observation in a recent review of GEM IPO placings that, in a number of placings, (a) the allocation of a substantial majority of the offered shares were attributable to a small proportion of the placing agents involved in the transaction, who placed those shares to a small number of placees (“**top placees**”), while (b) the remainder of the offered shares were placed in small quantities to a large number of placees. Even though the number of placees exceeded 100, the final allocation was

⁵⁸ Several Chinese-language news reports on 12 and 14 October 2015

substantially similar in effect to a placing of the offered shares only to the top placees and resulted in a high concentration of shareholdings among the top placees. In addition, the SFC has observed that a handful of investors repeatedly appeared as the top placees in otherwise unconnected GEM IPOs.

23. The 2017 Joint Statement stated that these market practices may undermine the open market requirement under GEM Listing Rule 11.23 and prevent an orderly, informed and efficient market for such securities to develop. The 2017 Joint Statement also stated that GEM Listing Rule 11.23 is clear that the minimum requirement of 100 public holders merely serves as a guideline. Meeting the minimum requirement alone does not mean that the open market requirement has been satisfied. Where the securities in the hands of the public are overly concentrated, the conditions for an open market may not exist even if such securities are held by 100 holders.
24. The 2017 Joint Statement made it clear that the SFC and/or the Exchange, where appropriate, will take appropriate actions with respect to any proposals whereby one or more persons takes up or holds securities on behalf of, or otherwise act in accordance with the instructions of any person⁵⁹, with a view to avoiding the application of any GEM Listing Rule.
25. Since the publication of the 2017 Joint Statement and up to 31 March 2017, to ensure that an orderly, informed and efficient market for such securities to develop⁶⁰, the SFC and Exchange have taken a robust approach in reviewing GEM applicants' placees lists. Four GEM applicants announced the postponement of their placings and listing timetables as they required more time for the book-building process of the placing to ensure an open market for securities and to respond to regulators' related enquires. As of 31 May 2017, two of these applicants were listed through a combination of placing and public offering or public offering only. On 22 February 2017, one GEM issuer's shares were suspended after trading half a day upon listing due to concerns on whether there was an open market of its shares. The trading of the shares of this issuer was resumed approximately one month later upon the placing of 5% of its shares, previously held by the controlling shareholders, to more than 400 placees.

⁵⁹ A person referred to in note 2 to GEM Listing Rule 11.23(11)

⁶⁰ GEM Listing Rule 2.01

Requirements in Other Jurisdictions

26. As shown in Table 6, GEM's public float requirement sits in the middle among the Selected Overseas Junior Exchanges (lower than Mothers and NasdaqCX and higher than AIM, Catalyst, ChiNext and TSX Venture) (see **Appendix V**).

Table 6: Comparison of Minimum Public Float Value Requirement of Selected Overseas Junior Exchanges and GEM

EXCHANGE	MINIMUM PUBLIC FLOAT VALUE
GEM	25% of issued shares and a market capitalisation of HK\$30 million or 15% if market capitalisation exceeds HK10 billion
AIM	No requirement
Catalist ⁶¹	15% of issued share capital and 200 shareholders (no value imposed)
ChiNext ⁶²	25% of issued shares and RMB7.5 million (HK\$9 million) of share capital or 10% of issued shares if share capital exceeds RMB\$400 million (HK\$467 million)
Mothers ⁶³	2,000 units (100 shares per unit), 25% of issued shares and market value of JPY500 million (HK\$36 million)
NasdaqCX ⁶⁴	1 million shares and market value of US\$5 million (HK\$39 million)
TSX Venture ⁶⁵	Tier 1: 20% of issued shares, one million shares held by 250 public shareholders Tier 2: 20% of issued shares, 0.5 million shares held by 200 public shareholders

⁶¹ Rule 406(1) of Catalyst Rules Singapore Stock Exchange

⁶² Rule 5.1.1(3) of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange

⁶³ Rule 212(2) of the Securities Listing Regulations of Tokyo Stock Exchange

⁶⁴ Rule 5505(a)(2) and b(3) of NASDAQ Stock Market Equity Rules for listing under the Net Income Standard. Listing under the Equity Standard and the Market Value of Listing Securities Standard both require US\$15 million (HK\$116 million) of market value of publicly held shares

⁶⁵ Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies

Consultation Proposals

Mandatory Public Offering Mechanism

27. The absence of a mandatory public offering mechanism for GEM listing applicants likely makes it easier for insiders⁶⁶ to control the supply and allocation of GEM stocks, which in turn makes GEM more prone to manipulation.
28. One way to address the problem of high shareholding concentration at listing and its resulting issues is to introduce a mandatory public offering mechanism. This would also provide more certainty on how to comply with the requirement under GEM Listing Rule 11.23 that there must be an open market in the securities for which listing is sought. This is emphasised in paragraph 14 of the SFC's statement dated 13 March 2017 "*Statement on recent GEM listing applicants*"⁶⁷ which states that having a public offer tranche is more likely to achieve a shareholder base which ensures a fair and orderly market. We propose that a GEM applicant must make a public offer of at least 10% of its total offer size.
29. We note that the requirement to make a public offer would increase the listing expense of GEM applicants⁶⁸ and lengthen the listing timetable. However, we believe that the benefits from this proposal to the market will outweigh the costs to future GEM applicants because:
 - (a) a mandatory public offering mechanism to allocate shares to retail investors will result in a broader shareholder base than a placing-only offering mechanism and is a good measure to demonstrate the existence of an "open market"; and
 - (b) a mandatory public offering mechanism will help reduce price volatility post-listing as evidenced in Chart 3 above which shows Small Cap MB

⁶⁶ The applicant and/or intermediaries have discretions in the allocation of shares. A mandatory public offering mechanism can deter controlling shareholder groups or "professional speculators" from colluding with "connected investors" through intermediaries to take up the limited shares allotted through placements to control the shareholder base. It can also reduce the extent of shares placed to "professional speculators" and "friends and family" of connected persons or interested parties

⁶⁷ <http://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=17PR31>

⁶⁸ Based on the average market capitalisation, offer size and listing expenses of Selected GEM Issuers and Small Cap MB Issuers, a mandatory public offering mechanism may increase the cost of a GEM listing by approximately 38% and such listing expenses may constitute an even larger portion of a GEM applicant's average offer size. The amount of time for GEM applicants to list will also increase by about two weeks as they will require more time to conduct a public offer after the issuance of a listing document. The potential increase in listing expenses and more time required to conduct a public offer may make it uneconomical for some small companies to list on GEM

Issuers, which are required to have a public offering mechanism, demonstrated lower price volatility than Selected GEM Issuers.

30. We also believe a mandatory public offering requirement will not be unduly onerous. This is because, based on the offering mechanisms of nine GEM issuers listed since the publication of the 2017 Joint Statement and up to 31 March 2017, seven have volunteered a public offering and only two were listed through a placing-only mechanism, of which one was suspended after trading half a day upon listing due to concerns on whether there was an open market of its shares.
31. We believe the proposed introduction of a mandatory public offering will not increase the risk exposure of retail investors, relative to investment in the Main Board, since GEM applicants are required to publish a prospectus to the same standard as that of Main Board applicants when making a public offer.

Align GEM Requirements with Main Board requirements

32. To increase the level of safeguards to GEM shareholders, we propose to align the GEM requirement on placing to core connected persons, connected clients and existing shareholders, and their respective close associates with that of the Main Board⁶⁹. The Exchange's consent will be required prior to such placings. We believe this proposal would not be unduly burdensome to GEM applicants given there were insignificant placings by Selected GEM Issuers to their core connected persons, connected clients, employees, existing shareholders or their respective close associates (see paragraph 19).
33. We also propose to align the allocation of offer shares between public and placing tranches and the clawback mechanism to make it consistent with that in Practice Note 18 to the Main Board Listing Rules.

Increase Minimum Public Float Value of Securities

34. The current requirement on the minimum public float value of securities was introduced almost nine years ago. Based on our findings, the average market capitalisation and offer size of Selected GEM Issuers (excluding those with significantly large market capitalisation of HK\$1,000 million or more at the time of listing) was HK\$274 million and HK\$69 million, respectively. In line with our proposal to increase the minimum market capitalisation of GEM issuers at listing, we propose to increase the minimum public float value of securities from HK\$30 million⁷⁰ to HK\$45 million.

⁶⁹ 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"

⁷⁰ GEM Listing Rule 11.23(9)

Interim Measures for GEM applications

45. The Exchange's proposed changes to the GEM admission requirements above are subject to the views of the market, and there is no certainty that the proposed changes will be adopted. In the meantime, applications for listing on GEM will continue to be processed in accordance with the GEM Listing Rules currently in force.
46. The Exchange acknowledges that since the proposals in this paper, if adopted, will raise the GEM admission requirements, there may be an influx of applications for listing on GEM while the consultation is ongoing. The Exchange's vetting period for GEM listing applications may be longer during this period as a result of such possible influx.

Consultation Questions

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.

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 HKEX-GL85-16 "*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.

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.

CHAPTER 5 PROPOSALS ON MAIN BOARD REQUIREMENTS

Background

1. The proposals set out in this paper (see Chapters 2 to 4), if adopted, will mean that the GEM listing requirements will be closer to or exceed the equivalent requirements of the Main Board (see **Appendix I**). This chapter reviews and proposes to amend certain Main Board requirements to preserve the Main Board's position as a market for larger companies. In proposing these changes, we aim to ensure that there is a clear distinction between issuers listed on GEM and the Main Board so that investors can choose investments that most closely match their investment goals.
2. We have reviewed the following Main Board requirements, some of which will be affected by the proposed amendments to the GEM Listing Rules set out in this paper (see **Appendix I**):
 - A. The Profit Requirement;
 - B. The minimum market capitalisation requirement;
 - C. The minimum public float value requirement; and
 - D. The post-IPO lock-up requirement.
3. For the purpose of our review of Main Board requirements we looked at the listing requirements of the Selected Overseas Main Markets (see **Appendix VI**).

A. The Profit Requirement

Current Requirements

4. The Main Board profit test requires a listing applicant to demonstrate HK\$30 million aggregate profit in the first two years of its three year track record period and HK\$20 million in the last year.
5. The Profit Requirement was implemented in September 1994 and was last subject to a public consultation in the 2002 Consultation Paper. In that consultation paper, we were of the view that the Profit Requirement serves as an effective indicator of the past performance of an applicant's management during the track record period, although it is not necessarily a guarantee of future performance⁷¹.

⁷¹ 2002 Consultation Paper, paragraph 37 of Part B: Initial Listing Eligibility Criteria

Current Level of Profit under the Profit Requirement

6. The 2002 Consultation Paper proposed no change to the level of profit under the Profit Requirement as the Exchange believed the Profit Requirement was on a par with the NYSE and substantially higher than other leading markets in the region. It also noted that the FCA listing rules do not have a profit requirement⁷². Instead, the consultation resulted in the introduction of two alternative tests that allow an applicant to meet market capitalisation and revenue or market capitalisation, revenue and cash flow criteria instead of meeting the Profit Requirement.
7. The Main Board eligibility requirements were comprehensively reviewed again by the Listing Committee in April 2010, and it was concluded that the Profit Requirement was generally a good indicator of a listing applicant's future profitability and that no significant changes to it were necessary.

Potential Alternative Quantitative Tests

8. In June 2016, the Listing Committee considered whether a minimum cash flow requirement should replace the Profit Requirement. This was considered because cash flow from operating activities may be more difficult to manipulate than accounting profit and hence a test of cash flow may better reflect the quality and consistency of a listing applicant's performance.
9. However, the Listing Committee decided that there did not appear to be compelling reasons to change the Profit Requirement or replace it with a minimum cash flow requirement.

Requirements in Other Jurisdictions

10. Table 7 below compares the minimum profit requirements of the Selected Overseas Main Markets with our own. For purposes of comparison, the profit required is aggregated over three years and converted to Hong Kong dollars.

⁷² 2002 Consultation Paper, paragraph 37

Table 7: Comparison of minimum profit requirements of Selected Overseas Main Markets and the Main Board

MARKETS	THREE YEAR AGGREGATE PROFIT (HK\$m)	FINAL YEAR PROFIT (HK\$m)
Main Board	50	20
ASX	5.8	2.9
FCA	<i>no profit test</i>	<i>no profit test</i>
NASDAQ	85	17
NYSE	77.6	15.5
SGX	<i>not required</i>	169
SSE	35	<i>not required</i>

11. Table 7 shows that the Profit Requirement, when aggregated over all three years of a track record period (HK\$50 million), is higher than ASX and SSE but lower than NASDAQ and NYSE. SGX tests only the profit made in the last year of an applicant's three year track record. FCA does not have a profit test.
12. The Profit Requirement for the final year of a listing applicant's track record period is higher than ASX, NASDAQ and NYSE but lower than SGX. The SSE does not test final track record year profit and FCA does not have a profit test.
13. It should also be noted that, except for the SSE, the Selected Overseas Main Markets test a listing applicants' pre-tax profit whereas the Main Board Listing Rules test profit attributable to shareholders (i.e. after tax)⁷³. In this respect, the Profit Requirement is more stringent than most of the Selected Overseas Main Markets.
14. As the Profit Requirement is still on a par with those of the Selected Overseas Main Markets and higher than most markets (including the United States) in the last year of a track record period, we do not propose any change in the level of profit under the Profit Requirement.

⁷³ For the purpose of satisfying the Profit Requirement, a listing applicant must also exclude the contribution of associated companies (that are recorded in financial statements using the equity method of accounting) and income or loss generated by activities outside the ordinary and usual course of the listing applicant's business

Consultation Proposals

15. We seek the views of respondents on:
- (a) whether the Profit Requirement should still be used to determine eligibility to list on the Main Board or whether alternative tests should replace it; and
 - (b) if the Profit Requirement is to be retained, whether any change in the level of profit under the Profit Requirement should be made.

B. The Minimum Market Capitalisation Requirement

Current Requirement

16. Main Board Listing Rule 8.09(2) requires listing applicants that choose to meet the profit test under the Main Board Rule 8.05(1)⁷⁴ to have a minimum market capitalisation at listing of HK\$200 million. This requirement was implemented in March 2004 following public consultation⁷⁵.

Issues and Findings

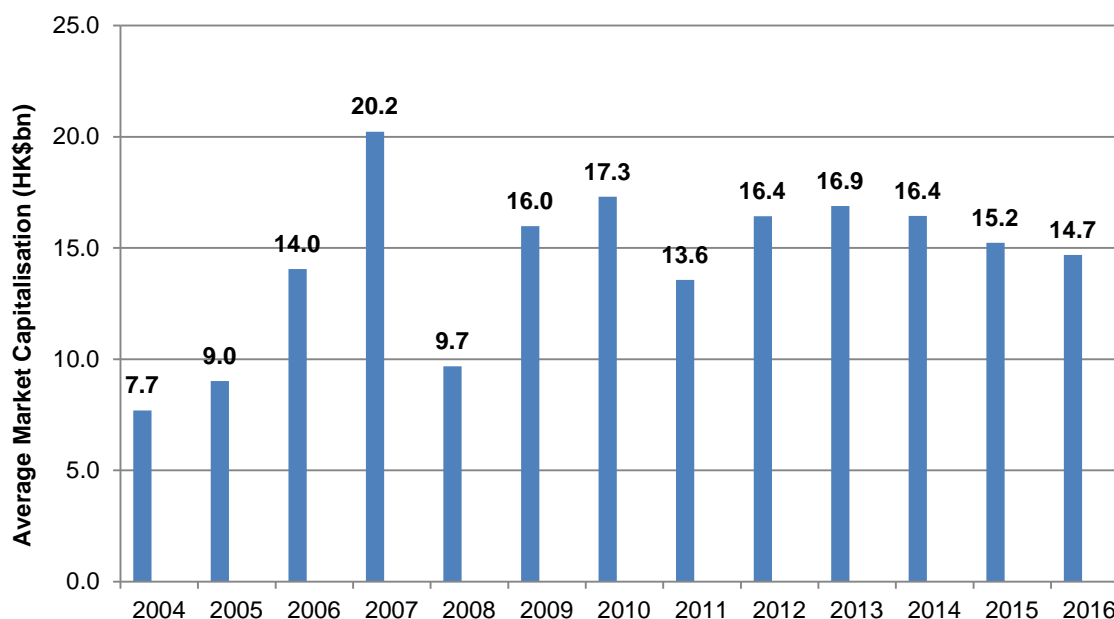
Increase in Average Market Capitalisation of Main Board companies

17. In 2004, the year that the current HK\$200 million minimum market capitalisation requirement was introduced, the average market capitalisation of a Main Board listed company was HK\$7.7 billion. Chart 4 below shows that, as at 31 December 2016, this figure has almost doubled to HK\$14.7 billion.
18. The Main Board is positioned as a market for larger companies. The increase in the average size of companies since 2004 may mean that the current HK\$200 minimum market capitalisation requirement is no longer representative of what a “large” company is today.

⁷⁴ 92% of applicants to the Main Board from 2010 to 2015 chose to meet the Profit Test

⁷⁵ 2002 Consultation Paper, paragraphs 59 to 68 of Part B: Initial Listing Eligibility Criteria. This consulted on raising the minimum market capitalisation requirement from HK\$100 million to HK\$200 million

Chart 4: Average market capitalisation of a Main Board issuer, 2004 to 2016⁷⁶

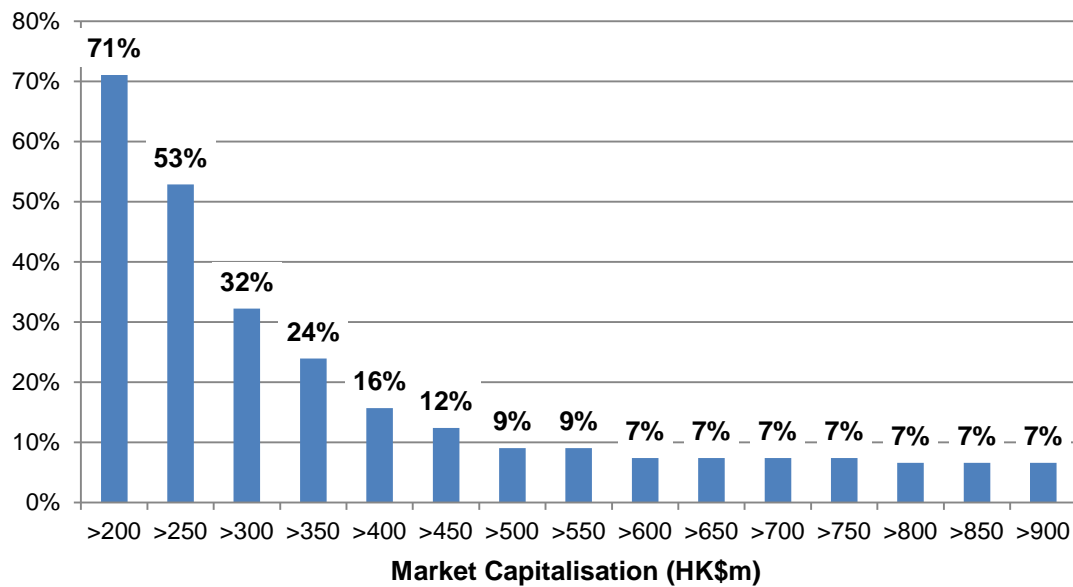


Effect on the Main Board of Raising the GEM Requirement

19. We propose to raise the minimum market capitalisation at listing for GEM applicants from at least HK\$100 million to at least HK\$150 million. If this proposal is adopted, the minimum market capitalisation requirements of GEM would be much closer to that of the Main Board (HK\$200 million).
20. We also found that a significant number of GEM applicants can already meet the minimum market capitalisation requirements of the Main Board. Chart 5 below shows that 71% of Selected GEM Issuers could meet this Main Board requirement. The average market capitalisation of Selected GEM Issuers at listing (excluding those with significantly large market capitalisation of HK\$1,000 million or more at the time of listing) was HK\$274 million, 37% above HK\$200 million. This is not consistent with the Main Board's position as a market for larger companies.

⁷⁶ Source: HKEX Fact Books (2004 to 2016)

Chart 5: Percentage of Selected GEM Issuers with a market capitalisation at listing above HK\$200 million



Effect of Raising the Main Board Requirement on Listing Applicants

21. We tested the hypothetical effect of raising the Main Board's minimum market capitalisation requirement for applicants that applied for listing in the seven years from 2010 to 2016. Table 8 below shows the percentage of these listing applicants that would have been excluded if we raised the requirement at increments of HK\$50 million. The table shows the effect on both direct applicants to the Main Board (i.e. those which were not previously listed on GEM) and the effect on issuers that transferred from GEM to the Main Board.

Table 8: Percentage of excluded listing applicants if the minimum market capitalisation requirement was increased

Minimum Market Capitalisation (HK\$m)	Percentage of Excluded Listing Applicants	
	Direct Applicants	Transfers from GEM
250	2%	5%
300	3%	12%
350	5%	20%
400	8%	22%
450	11%	25%
500	13%	33%
550	15%	35%
600	16%	38%
650	18%	38%
700	19%	47%

Requirements in Other Jurisdictions

22. Table 9 below compares Main Board's minimum market capitalisation requirement with those in the Selected Overseas Main Markets⁷⁷. It shows that Main Board's minimum market capitalisation requirement is higher than the minimum required by ASX, FCA and SSE but substantially lower than that of Nasdaq Global Select Market, NYSE and SGX (see **Appendix VI**).

⁷⁷ Most of the Selected Overseas Main Markets use tests that are not directly equivalent to our combined test of market capitalisation and profit. These jurisdictions have either a standalone market capitalisation test or a combination of a test of market capitalisation and other financial performance indicators (e.g. revenue or net assets)

Table 9: Comparison of minimum market capitalisation requirement of Selected Overseas Main Markets and the Main Board

MARKETS	MINIMUM MARKET CAPITALISATION (HK\$m)
Main Board	200
ASX ⁷⁸	87
FCA ⁷⁹	7
Nasdaq Global Select Market ⁸⁰	1,242
NYSE ⁸¹	1,552
SGX ⁸²	843
SSE ⁸³	58

Consultation Proposal

23. To preserve the distinctiveness of the Main Board and its position as a market for larger companies that can meet Hong Kong's highest market standards, we propose to increase the minimum market capitalisation of a Main Board applicant at listing from at least HK\$200 million to at least HK\$500 million.
24. We propose the figure of HK\$500 million for the following reasons:
 - (a) it broadly reflects the doubling in the average size of listed companies since the minimum market capitalisation requirement was introduced in 2004 (see Chart 4);
 - (b) it significantly reduces the percentage of Selected GEM Issuers that could have met the Main Board requirement. Only 9% of Selected GEM Issuers would have been able to meet a HK\$500 million market capitalisation requirement, compared with 71% of Selected GEM Issuers that could meet the current HK\$200 million requirement (see Chart 5).

⁷⁸ Required if an applicant uses the standalone market capitalisation test rather than the standalone profit test or standalone net tangible assets test (effective from 19 December 2016)

⁷⁹ The FCA has only a standalone market capitalisation requirement and does not test profit or any other financial performance indicator

⁸⁰ Required if the Market Cap. & Total Assets & Equity Standard is used. An applicant must also have total assets of at least US\$80 million (HK\$621 million) and stockholders' equity of at least US\$55 million (HK\$427 million)

⁸¹ Required if an applicant uses the standalone global market capitalisation test (rather than earnings test, i.e. profit test)

⁸² Required if an applicant cannot meet the SGX profit requirement of S\$30 million (HK\$169 million) in the last year of its track record period but is profitable in that year

⁸³ The SSE requires that a listing applicant's share capital have a value of at least RMB50 million (HK\$58 million) after issuance

However, increasing this figure above HK\$500 million would not have much further effect, as 7% of the Selected GEM Issuers could meet a requirement that was as high as HK\$900 million (see Chart 5);

- (c) it would have excluded only 13% of direct listing applicants to the Main Board from 2010 to 2016 and 33% of GEM transfers to the Main Board (see Table 8). This means the Main Board would remain available as a listing venue for a majority of larger companies (providing benefits to them such as eligibility for Hang Seng Indexes) and GEM would continue to be available for excluded companies; and
- (d) it positions our Main Board closer to some of the Selected Overseas Main Markets (i.e. Nasdaq Global Select Market, NYSE and SGX) with regards to their expected market capitalisation requirements (see Table 9).

C. The Public Float Value Requirement

Current Requirement

- 25. Main Board Listing Rule 8.07 requires a listing applicant to ensure that there is an open market in the securities for which listing is sought. This will normally mean that at least 25% of the issuer's total number of issued shares must at all times be held by the public⁸⁴. The minimum market capitalisation at the time of listing of publicly held securities must be at least HK\$50 million (25% of the current minimum market capitalisation requirement of HK\$200 million).

Issues and Findings

- 26. As we propose to increase the minimum market capitalisation requirement at listing for Main Board applicants to HK\$500 million (see paragraph 23), the requirement on the minimum public float value of securities will need to be increased proportionally.

Consultation Proposal

- 27. We propose a proportionate increase in the minimum public float value requirement for Main Board applicants from HK\$50 million to HK\$125 million (25% of the proposed HK\$500 million minimum market capitalisation requirement).

⁸⁴ Main Board Listing Rule 8.08(1)(a)

D. The Post-IPO Lock-up Requirement

Current Requirement

28. Main Board Rule 10.07 restricts controlling shareholders of a listing applicant from disposing of their equity interest (a) within six months from the date of listing; and (b) within the next six months such that they cease to be the applicant's controlling shareholders⁸⁵.

Issues and Findings

Effect on the Main Board of Raising the GEM Requirement

29. We propose, in this paper, to extend both limbs of the controlling shareholder lock-up under GEM Rule 13.16A(1) to one year so that controlling shareholders would be restricted from disposing of their shares in a company for a total of two years after listing (see Chapter 3, paragraph 32). If this proposal is implemented and the corresponding Main Board Listing Rule is not changed, GEM's post-IPO lock-up requirement would be more stringent than that of the Main Board.

Recently published guidance on IPO vetting and suitability criteria

30. In June 2016, the Exchange issued the 2016 Suitability Guidance Letter stating that the Exchange notes that there have been a number of listed issuers where their controlling shareholders either changed or have gradually sold down their interests shortly after the regulatory lock-up period following listing. One explanation for this phenomenon is that companies may be listing for the perceived premium attached to the listing status rather than the development of the issuers' underlying businesses or assets.
31. The Exchange believes that such companies will invite speculative trading activities when identified by potential buyers. This in turn can lead to opportunities for market manipulation, insider trading and unnecessary volatility in the market post-listing, none of which is in the interest of the investing public. Furthermore, activities by such companies may be structured so that they are not subject to regulatory scrutiny under the Listing Rules, guidance on reverse takeovers⁸⁶, and guidance on cash companies⁸⁷.

⁸⁵ Exchange News Release, "*Changes to the Listing Rules Pursuant to the 1992 Review of the Listing Rules*" (21 July 1993), paragraph 9. There was previously no requirement. This requirement was implemented in July 1993 following a public consultation

⁸⁶ Main Board Listing Rule 14.06 and Guidance Letter HKEX-GL78-14 "*Guidance on application of the reverse takeover requirements*"

⁸⁷ Guidance letter HKEX-GL84-15 "*Guidance on cash company rules*"

32. We propose in this Chapter (see paragraphs 16 to 24) to increase the minimum market capitalisation requirement for companies choosing to meet the profit test from HK\$200 million to HK\$500 million. This will reinforce the Main Board’s position as a market for larger companies. These applicants will need to have substantial businesses that can generate the projected future earnings necessary to meet the proposed new threshold. Consequently, it is less likely that they will have the characteristics identified in the 2016 Suitability Guidance Letter.

Requirements in Other Jurisdictions

33. Table 10 shows that the Selected Overseas Main Markets vary in their practices regarding the locking-up of shareholdings after a listing (see **Appendix VI**).

Table 10: Comparison of lock-up requirements of Selected Overseas Main Markets and Main Board

MARKETS	LOCK-UP REQUIREMENTS
Main Board	Controlling shareholders are prohibited from disposing of their shares in the issuer: (a) in first six months after listing; or (b) in the subsequent six months if the disposal would result in the person or group of persons ceasing to be a controlling shareholder(s)
ASX	A 12 to 24 month lock-up for “restricted securities” meaning securities in a listing applicant issued to persons such as the promoters ⁸⁸ , vendor, consultants and seed capitalists prior to its admission to listing
FCA	Disclosure of lock-up arrangements only
Nasdaq Global Select Market and NYSE	No lock-up in federal laws or exchange rules but market practice is for the underwriter to require a 180 day lock-up of shares owned by insiders
SGX	A moratorium on a promoter’s shareholding of up to 12 months after a listing
SSE	36 months lock-up after listing

Consultation Proposal

34. To ensure that controlling shareholders demonstrate a longer term commitment to the success of the business that is to be listed, we propose strengthening the Main Board post-IPO lock-up requirement on controlling

⁸⁸ The definition of a “promoter” includes persons with at least a 10% interest in the voting securities of the company

shareholders to match the corresponding proposal for GEM issuers as discussed in Chapter 3.

35. We therefore propose to increase the Main Board post-IPO lock up requirements so that those persons identified as controlling shareholders cannot dispose of any of their interests in the Main Board issuer within the first year of listing and cannot dispose of any interest in the subsequent year that would result in them no longer being a controlling shareholder as defined in Main Board Listing Rule 1.01.
36. However, as we mentioned in paragraph 32, the concerns expressed in the 2016 Suitability Guidance letter may not apply to a large part of the Main Board given the larger size of its listing applicants and our proposal to raise the minimum market capitalisation requirement that they must meet. Consequently, we seek views on whether it is appropriate to extend the post-IPO lock-up requirements for the Main Board to match the corresponding proposals for GEM.

Proposals for the Main Board Independent of GEM proposals

37. The proposals for the Main Board are aimed at preserving the status of the Main Board as a venue for larger companies. The Exchange consulted on a minor change to the eligibility requirements in September 2010 in its “Consultation Paper on Proposed Changes to the Minimum Number of Shareholders for the Market Capitalisation/Revenue Test” but the current Main Board eligibility requirements were last reviewed by the Listing Committee in June 2016 and have not been the subject of substantial public consultation since 2002, and consider a review of these requirements should be made to reflect the positioning of the Main Board as a venue for larger companies irrespective of the outcome of the GEM proposals.
38. We believe that the proposal for the increase in the Main Board minimum market capitalisation required at listing broadly reflects the growth of Main Board issuers since the last public consultation on this subject in 2002. The proposals will also position our Main Board closer to some of the Selected Overseas Main Markets. We therefore believe that the proposals for the Main Board should be considered independently and should not be dependent on the outcome of the GEM proposals.

Interim Measures for Main Board Applications

39. The Exchange’s proposed changes to the Main Board admission requirements above are subject to the views of the market, and there is no certainty that the proposed changes will be adopted. In the meantime, applications for listing on the Main Board will continue to be processed in accordance with the Main Board Listing Rules currently in force.

40. The Exchange acknowledges that since the proposals in this paper, if adopted, will raise the Main Board admission requirements, there may be an influx of applications for listing on the Main Board while the consultation is ongoing. The Exchange's vetting period for Main Board listing applications may be longer during this period as a result of such possible influx.

Consultation Questions

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.

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.

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.

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.

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.

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.

CHAPTER 6 TRANSITIONAL ARRANGEMENTS

1. We acknowledge that GEM issuers and GEM applicants may have chosen to list on GEM as a result of GEM's current positioning as a "stepping stone" to the Main Board. To minimise the impact of the reform of GEM and amendments to the GEM and Main Board Listing Rules on stakeholders, we will put in place the following transitional arrangements in relation to GEM Transfers for GEM issuers and GEM applicants if the proposals in this paper are adopted:
 - (a) all GEM Transfer applications submitted on or before the Amendment Effective Date will be processed under the current GEM Streamlined Process and their eligibility for the Main Board will be assessed in accordance with the Listing Rules currently in force (only one refreshed transfer application submitted after the Amendment Effective Date will be permitted pursuant to this arrangement); and
 - (b) Eligible Issuers will be given the Transitional Period to apply for a transfer to the Main Board in accordance with the transitional GEM Transfer arrangement below.
2. All GEM Transfer applications submitted by Eligible Issuers during the Transitional Period will have their eligibility for the Main Board assessed in accordance with the Main Board Listing Rules currently in force and subject to the following requirements:
 - (a) relevant applicants that have changed their principal businesses and/or controlling shareholders since listing on GEM will be required to appoint a sponsor to conduct due diligence and publish a "prospectus standard" listing document as if they are new listing applicants to the Main Board; or
 - (b) relevant applicants who did not experience any of the changes described in paragraph 2(a) above will only need to prepare a GEM Transfer announcement in connection with its GEM Transfer. Such applicants are also required to appoint a sponsor in connection with its GEM Transfer to conduct due diligence in respect of the applicant's activities during the most recent full financial year and up to the date of the GEM Transfer announcement to ensure that the information in the GEM Transfer announcement is accurate, complete and not misleading.
3. Table 11 below is a summary of the transitional arrangements if the GEM and Main Board proposals are adopted:

Table 11: Transitional arrangements

	From the date of this consultation paper to the Amendment Effective Date ^{Note 1}	Transitional Period (Three years from the Amendment Effective Date)	After the end of the Transitional Period
GEM Transfer applications from Eligible Issuers ^{Note 2}	GEM Transfer applications ^{Note 3} will be: - processed under the current GEM Streamlined Process; and - eligibility for the Main Board will be assessed in accordance with the Main Board Listing Rules in force as at the date of this consultation paper	GEM Transfer applications will be: - processed under the transitional arrangements set out in paragraph 2 above; and - eligibility for the Main Board will be assessed in accordance with the Main Board Listing Rules in force as at the date of this consultation paper	All GEM Transfer applications will be processed under the <u>revised</u> Main Board Listing Rules
GEM listing applicants (after the date of this consultation paper)	Applications will be processed under GEM Listing Rules in force as at the date of this consultation paper ^{Note 3}	Applications will be processed under <u>revised</u> GEM Listing Rules and any subsequent GEM Transfer applications will be processed under the <u>revised</u> Main Board Listing Rules	
Main Board listing applicants (after the date of this consultation paper)	Applications will be processed under Main Board Listing Rules in force as at the date of this consultation paper ^{Note 3}	Applications will be processed under <u>revised</u> Main Board Listing Rules	

Note 1: Expected to be approximately six months from the date of this consultation paper

Note 2: Eligible Issuers refer to all issuers listed on GEM and all GEM applicants who have submitted a valid listing application for listing on GEM as at the date of this consultation paper and successfully listed on GEM subsequently (with only one refreshed listing application after the date of this consultation paper)

Note 3: With only one refreshed listing/ transfer application permitted after the Amendment Effective Date, as the case may be

4. The GEM Transfer announcement should provide investors with a concise update of the issuer's affairs during the most recent full financial year and up to

the date of the GEM Transfer announcement, and should cover the following key areas:

- (a) a management discussion and analysis of the applicant's performance in the most recent full financial year;
 - (b) a business update of the applicant during the relevant period, including major developments, highlights and the latest status;
 - (c) material changes since the end of the most recent full financial year (if any);
 - (d) other material information during the relevant period, including non-compliances, shareholding or management changes, or relevant regulatory or industry developments; and
 - (e) any other material information identified during the due diligence process and not previously disclosed by the applicant.
5. The sponsor for applicants under paragraph 2(b) is required to conduct due diligence on the applicant in respect of its activities during the relevant period. Such due diligence must be conducted by the sponsor in accordance with the standards expected of sponsors under paragraph 17 of the SFC's Code of Conduct and the principles set out in paragraph 2 of Practice Note 21 to the Main Board Listing Rules in relation to the disclosures in the GEM Transfer announcement (for this purpose reference to listing document in paragraph 2 of Practice Note 21 to the Main Board Listing Rules shall be substituted with reference to the GEM Transfer announcement). The sponsor is also expected to be closely involved in the preparation of the GEM Transfer announcement. As the applicant is not required to publish a listing document in connection with its GEM Transfer application, provisions of paragraph 17 referring to the preparation of a listing document, application proof, the contents of a listing document and an expert report will not apply. Additional guidance in the form of "Frequently Asked Questions" will be published by the SFC on this aspect.

APPENDIX I SUMMARY OF PROPOSALS

	Current Regime	Proposals
GEM		
Transfer mechanism	<ul style="list-style-type: none"> - No sponsor is required - Transfer announcement 	<ul style="list-style-type: none"> - A sponsor must be appointed - “Prospectus-standard” listing document
Admission requirements for GEM Transfers to the Main Board	Must have published at least one full financial year of financial statements after GEM listing and no disciplinary investigations for serious or potentially serious breaches 12 months before transfer	Must have published at least two full financial years of financial statements after GEM listing and no disciplinary investigations for serious or potentially serious breaches 24 months before transfer
Track record requirement¹	Two financial years	No change
Ability to meet Main Board admission requirements	No requirement for a GEM applicant that can meet the Main Board admission requirements to list on the Main Board instead of GEM	No change
Cashflow Requirement²	HK\$20 million	HK\$30 million
Minimum market capitalisation at the time of listing³	HK\$100 million	HK\$150 million
Minimum public float value at the time of listing⁴	HK\$30 million	HK\$45 million
Post-IPO Lock-up period on controlling shareholders⁵	Controlling shareholders cannot sell shares for the first six month upon listing. For the next six months, controlling shareholders may sell shares but should retain control	Controlling shareholders cannot sell shares for the first year upon listing. For the next year, controlling shareholders may sell shares but should retain control

¹ GEM Rule 7.03(1)(a)

² GEM Rule 11.12A(1)

³ GEM Rule 11.23(6)

⁴ GEM Rule 11.23(2)(a)

⁵ GEM Rule 13.16A

	Current Regime	Proposals
Offering mechanism⁶	Free to decide the offering mechanism provided full disclosure is made in the listing document (100% placing allowed)	Mandatory public offering of at least 10% of the total offer size and the allocation of offer shares between the public and placing tranches and the claw back mechanism to be consistent with those in Practice Note 18 to the Main Board Rules
Placing to selected individuals⁷	Selected individuals are allowed to participate in the placing provided full disclosure is made in the listing document	Align with Main Board Rules where waiver/ consent of the Exchange are required ⁸
Minimum number of public shareholders⁹	100	No change
Shareholder spread¹⁰	Three largest shareholders should not hold more than 50% of the shares in public hands	No change
Main Board		
Profit Test¹¹	Profit Requirement	No change
Minimum market capitalisation at the time of listing¹²	HK\$200 million	HK\$500 million
Minimum public float value at the time of listing¹³	HK\$50 million	HK\$125 million

⁶ GEM Rule 10.12

⁷ GEM Rules 10.12(3), 10.12(4) and 13.02(1)

⁸ Main Board Rules 10.03 and 10.04 and paragraph 5(2) of Appendix 6 of Main Board Rule

⁹ GEM Rule 11.23(2)(b)

¹⁰ GEM Rule 11.23(8)

¹¹ Main Board Rule 8.05(1)

¹² Main Board Rule 8.09(2)

¹³ Main Board Rules 8.08(1)(a) and 8.09(1)

	Current Regime	Proposed Changes
Post-IPO Lock-up period on controlling shareholders¹⁴	Controlling shareholders cannot sell shares for the first six months upon listing. For the next six months, controlling shareholder may sell shares but should retain control	Controlling shareholders cannot sell shares for the first year upon listing. For the next year, controlling shareholder may sell shares but should retain control
Minimum number of public shareholders¹⁵	300	No change
Shareholder spread¹⁶	Three largest shareholders should not hold more than 50% of the shares in public hands	No change
Other changes – for information only		
Name of GEM	English name: “Growth Enterprise Market” (acronym: “GEM”); and Chinese name: 「創業板」	Rename as “GEM” (both Chinese and English names)
GEM Listing Rules 2.12 and 2.20	Companies listed on GEM are of an emerging nature	GEM to be a market to cater for small to mid-sized companies
Approval authority¹⁷	Delegation of listing approval from the Listing Committee to the Listing Department, with right of appeal to the Listing Committee	Listing Committee (i.e. unwind the Delegated Authority)
Delisting process	As detailed under GEM Rules 9.14 and 9.15	To follow the consultation on delisting policy of the Main Board and GEM

¹⁴ Main Board Rule 10.07(1)

¹⁵ Main Board Rule 8.08(2)

¹⁶ Main Board Rule 8.08(3)

¹⁷ GEM Rule 3.05

APPENDIX II THE DEVELOPMENT OF GEM

1. GEM was launched by the SEHK in November 1999, following more than a decade of deliberation, to provide emerging companies with a capital formation platform and as an alternative market to the Main Board.
2. This appendix presents the development of GEM and traces the growth of the idea of a second board in Hong Kong.

First initiative: 1986 - 1987

3. The question of a second board was raised almost immediately after the unification of the four pre-existing stock exchanges into the Stock Exchange of Hong Kong in 1986. The drivers were a decline in the number of issuers, the perception of a funding gap for small and growing enterprises, and a perceived need to support the development of venture capital in Hong Kong.
4. However, the 1987 stock market crash put the second market idea on hold. The Securities Review Committee, established to investigate the crash, considered the idea of a second board but found market opinions divided on the issue¹.
5. In its May 1988 report, the Securities Review Committee noted the potential benefits of a second board to the venture capital industry, and that it would also encourage China-related companies to seek a listing in Hong Kong since such companies would not be able to meet the then five-years track record requirement because of the developing state of the Mainland economy. Nevertheless, the Securities Review Committee felt that there was no demonstrable need for a second board since a second market with lower admission requirements would lead to the listing of poor quality stocks².

Second initiative: 1990-1991

6. In October 1990, the SEHK formed the Second Board Advisory Group to consider whether it should establish a second board. However, this initiative was overtaken by (a) revisions to the Exchange's own listing rules to make it easier to access the existing board (for example, the former five-years track record requirement was reduced to three years); and (b) recognition of the growth of activities of China-related issuers in the market and the impending transition of sovereignty³. The Exchange determined that its mission was to promote capital formation not only in Hong Kong but also in Mainland China⁴. Accordingly, in June 1991, the Second Board Advisory Group was reconstituted as the China Study Group which led to the eventual listing of H-shares companies in Hong Kong.

¹ 2006 Discussion Paper, paragraph 9 of Appendix I

² 2006 Discussion Paper, paragraph 9 of Appendix I

³ 2006 Discussion Paper, paragraph 11 of Appendix I

⁴ 2006 Discussion Paper, paragraph 11 of Appendix I

Third initiative: 1994-1996

7. In response to the Exchange's consultation paper on its strategic plan in March 1994, some practitioners supported the idea of a second board while others expressed concern on the quality of the large number of companies (more than 60 each year during 1991-1993) that had listed since the relaxation of the existing board's track record requirement from five to three years⁵. The Exchange therefore proposed not to further consider the idea of a second board.
8. In September 1994, the Exchange imposed a profit track record requirement on listing applicants to address concerns about quality of issuers⁶. This move revived market interest in the idea of a second board, since emerging companies might not have a profit track record. It also became apparent at the same time that many developed overseas exchanges were establishing new second markets – for example, AIM and Paris's Nouveau Marché. As such, in the strategic plan released in February 1995, the Exchange committed to review again the need for a second board in its strategic plan.
9. In July 1995, the Exchange informally consulted a group of market practitioners on tentative proposals for a second board. The response was mixed, leading to a lowering of the priority assigned to this initiative⁷.
10. The Exchange's 1996 Secondary Market Survey found support for the idea of a second board - 42% of responding Exchange members, fund managers and custodians were in favour while only 25% were against⁸. In a related development, the Exchange also launched a consultation in 1996 on market-making and other proposals to improve the market for second-line stocks⁹. However, there were few and diverse responses to the consultation, and the Exchange shelved the initiative.

Preparation for and launch of GEM: 1998-1999

11. The Government's drive to support the development of technology industry and small and mid-sized companies in Hong Kong brought a new impetus to the second board idea. The Hong Kong Special Administrative Region Chief Executive's 1998 policy address committed to "study proposals for a venture board for smaller and emerging technology companies' stocks" (paragraph 42).
12. In May 1998, the Exchange released the 1998 Consultation Paper. The proposed second market was to be an alternative market to the Main Board with the objective to provide capital formation for emerging companies to facilitate their business development and/or expansion. However, the Exchange accepted that certain

⁵ 2006 Discussion Paper, paragraph 13 of Appendix I

⁶ 2006 Discussion Paper, paragraph 14 of Appendix I

⁷ 2006 Discussion Paper, paragraph 16 of Appendix I

⁸ 2006 Discussion Paper, paragraph 17 of Appendix I

⁹ 2006 Discussion Paper, paragraph 18 of Appendix I

companies that could fulfill the listing requirements of the Main Board may choose instead to list on the second market¹⁰.

13. To accommodate emerging companies which were less established and unable to meet the Main Board listing requirements, the 1998 Consultation Paper proposed admission requirements of the second market which were lower than those of the Main Board in general. For example, it proposed two years of active business history (instead of three-year track record) under substantially the same ownership and management; and no minimum profit requirement.
14. Given the greater uncertainty of future business performance of emerging companies and the lower admission requirements, the Exchange determined that the second market would significantly increase the risks to investors¹¹. Accordingly, it was proposed that the second market should be a specialised market targeting only sophisticated investors (i.e. professional and knowledgeable retail investors) by setting a high minimum transaction size (HK\$250,000) to deter the participation of other retail investors and to raise investors' awareness of the need to conduct a thorough appraisal prior to investing in these companies. The proposed second market would adopt a "let the buyer beware" philosophy with prominent risk warnings, and an enhanced-disclosure based regime¹².
15. In December 1998, the Exchange released revised details of GEM. The minimum transaction size was to be reduced to HK\$50,000 and a two-year requirement and a one-year moratorium was imposed on the disposal of shares for management shareholders and for strategic investors, respectively.
16. This release also anticipated possible concerns including relatively illiquid trading, the relatively modest pool of issuers given Hong Kong's small economic size, possible inappropriate behaviour and poor corporate governance on the part of issuers, and market manipulation. Nevertheless, the following benefits were seen to be more important as GEM would:
 - encourage more direct investment and venture capital into smaller enterprises;
 - help educate small enterprises in Hong Kong, the Mainland China and Taiwan in corporate governance;
 - encourage investors to focus more on industrial companies rather than conglomerates and property companies; and
 - offer valuable economic benefits and secure Hong Kong's position as the pre-eminent home market for Mainland China enterprises.
17. In July 1999, the Exchange released the GEM Listing Rules with further modifications. GEM listing applicants were required to give a more detailed explanation of their past business and future business objectives than Main Board

¹⁰ 1998 Consultation Paper, paragraph 2 of the Executive Summary

¹¹ 1998 Consultation Paper, paragraph 3 of the Executive Summary

¹² 1998 Consultation Paper, paragraph 6 of the Executive Summary

candidates. Their business progress during the first two years after listing would be compared with their stated business objectives. Companies would need a designated compliance officer. The minimum public float would be the higher of HK\$30 million and 20 to 25 per cent of the listing applicants' issued share capital. Significant shareholders should not dispose of their shares for at least six months after listing. Management shareholders should not dispose of their shares for at least two years after listing.

18. In November 1999, GEM was launched and the GEM Listing Rules were amended again to lower the public float limits – the higher of HK\$30 million and 20 per cent for issuers with a market capitalisation of not more than HK\$1 billion, and the higher of HK\$200 million and 15 per cent for issuers over HK\$1 billion. In the same month, the Exchange issued a press release to emphasize that the GEM Listing Committee had the discretion to waive the lock-up period for management shareholders¹³. Retail investors were allowed to participate as it was envisaged that there would be retail interest in growth companies.

Post-launch development of GEM: 2000 to 2008

19. In January 2000, the Exchange published an investor guide to GEM. GEM investors were required to sign a risk disclosure statement before dealing in GEM shares.

Consultation: 2000 to 2001

20. The launch of GEM coincided with the global “dot-com” boom. There was considerable growth in the so-called e-businesses and i-businesses across the world as well as in Hong Kong and along with its fellow second markets, GEM attracted these fast-evolving sectors. By the end of March 2000, GEM had attracted 18 listings, a number of them engaged in the new-economy businesses.
21. After gaining some experience from the administration and operation of GEM, the SFC and the Exchange reassessed the market to ensure that the GEM Listing Rules continued to be relevant while providing an adequate standard of investor protection. As rule changes generally involve a public consultation and lengthy procedures, the GEM Listing Committee initially granted waivers of the GEM Listing Rules for listing applicants in order not to discourage some worthy applicants. On 11 March 2000, the SFC and the Exchange jointly announced the temporary relaxation of certain GEM Listing Rules by incorporating the waivers in general practice with immediate effect, pending a full review of the rules after a market consultation¹⁴:
 - The management shareholders' lock-up was reduced from two years to six months.
 - The requirement for 24 months active business pursuits was reduced to 12 months.

¹³ 2006 Discussion Paper, paragraph 30 of Appendix I

¹⁴ <http://www.hkex.com.hk/eng/newsconsul/hkexnews/2000/sehk/0311a.htm>

- The accountants' report was to cover just 12 months.
 - The general mandate for granting share options was set at 10%, subject to an overall cap on all outstanding share options of 30% of existing share capital.
22. In May 2000, the Exchange issued the promised consultation paper¹⁵. In addition to the four changes mentioned in the paragraph above, the consultation paper also raised two further questions: (a) whether a mandatory public subscription tranche should be imposed on all GEM IPOs; and (b) the need for any revenue or profit requirement for GEM listing applicants.
23. In July 2001, the SFC and the Exchange jointly announced the results of the consultation. The main changes to the GEM Listing Rules, which came into effect on 1 October 2001, were the following¹⁶:
- The minimum period of active business pursuits was restored to 24 months. However, for companies of substantial size and with significant public following (e.g. HK\$500 million revenue and 300 shareholders), the minimum period was reduced to 12 months.
 - A GEM issuer was not permitted to issue new securities within six months of listing (except to acquire assets which complement its focused line of business).
 - The moratorium period for disposal of shares by initial management shareholders was raised to 12 months (six months for those with not more than one per cent holding).
 - Certain requirements for share option schemes were amended and the related disclosures were tightened.
 - The public float (i.e. not including employee shareholdings) was to be 25 per cent for issuers with a market capitalisation not exceeding HK\$4 billion and the higher of 20 per cent and HK\$1 billion for issuers with a market capitalisation of over HK\$4 billion at time of listing.

Change in market condition: 2001 to 2005

24. After the “dot-com” bubble burst in 2000, many GEM issuers experienced a decline in their share prices, some experienced losses and/or long periods of suspension, and the shares of these companies were often illiquid¹⁷. At the same time, the number of new listings on GEM has declined and post-listing fund-raising activities for GEM issuers became less active than those on the Main Board¹⁸. Overall, there was a loss of confidence in the GEM market.

¹⁵ Market Consultation on the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (May 2000)

¹⁶ 2006 Discussion Paper, paragraph 42 of Appendix I

¹⁷ 2006 Discussion Paper, paragraph 10 of Chapter 1

¹⁸ 2006 Discussion Paper, tables 1 and 2 of Appendix I

25. Against this background and considering GEM had been in operation for over six years, the Exchange began a review of GEM in 2005 with informal interviews with market practitioners. It explored the possibility of creating a new alternative market for growth companies, along the lines of AIM, which could have a more flexible vetting regime but stricter sponsor regulation, and might be restricted to professional investors only.

2006 Discussion Paper

26. In January 2006, the Exchange published the 2006 Discussion Paper, which summarised the more prominent comments from the informal interviews and complemented by the Exchange's own statistical analyses of GEM and research on overseas experience of growth company markets, to elicit further views from a broader range of market users and interested parties. The 2006 Discussion Paper set out three structural options for the further development of GEM¹⁹:

- (a) **GEM as a second board** – GEM would largely maintain its existing structure and would be positioned as a “stepping stone” to the Main Board.
- (b) **GEM and the Main Board to merge as a single board** – The merged single board could be an undifferentiated market or would have two tiers of which the growth market would form the lower tier subject to separate admission criteria.
- (c) **New alternative market** – GEM would be merged into the Main Board. Existing GEM companies would be grandfathered into the Main Board. A separate new alternative market for growth companies, along the lines of AIM, would be opened and would be distinguished from the Main Board. It would provide a listing venue where issuers were expected to stay for the long term. It could have a more flexible vetting regime but stricter sponsor regulation, and might be restricted to professional investors only.

27. The submissions to the 2006 Discussion Paper on the whole favoured the new alternative market option. The option to merge GEM and the Main Board did not attract support (concerns were expressed about the possible dilution of the quality of the Main Board, and of its image and standing among investors) whereas the option of positioning GEM as a second board received little comment²⁰.

2007 Consultation Paper

28. In July 2007, the Exchange published the 2007 Consultation Paper to put forward for comment the Exchange's specific proposals for the further development of GEM. Notwithstanding market support for the option of a new alternative market similar to AIM, the Exchange, in consultation with the SFC, concluded that the Hong Kong market was not yet ready for the AIM model for the following reasons²¹:

¹⁹ 2006 Discussion Paper, paragraph 7 of Chapter 1

²⁰ 2007 Consultation Paper, paragraph 5 of Executive Summary

²¹ 2007 Consultation Paper, paragraph 62 of Chapter 2

- **Retail investor base in Hong Kong** – Institutional investors predominated on AIM. They were generally knowledgeable about investment and about the sectors and industries in which they invested, and thus capable of taking care of themselves. There was no vetting of the admission document by the London Stock Exchange or the UK Listing Authority. However, GEM shares were normally subscribed and traded to a greater extent by retail investors²².
- **No tax concessions for investments in GEM** – The UK government granted a number of tax concessions to foster the UK small and medium enterprise sector. However, there were no tax concessions for investment in GEM companies. It was considered unlikely that such concessions would be forthcoming from the Hong Kong Government²³.
- **Role of nomads/ sponsors** – Nominated advisers (Nomads), who were corporate finance advisers approved by the London Stock Exchange, were required at all times for AIM issuers. Regulatory reliance was principally placed upon the Nomads as they were responsible for advising and guiding companies in relation to their admission to AIM as well as continuing obligations once on market. The London Stock Exchange monitored the nomads on an ongoing basis, inviting consultation when difficulties arised, and issuing reprimands when conduct became unacceptable. In the UK, the then Financial Services Authority had extensive powers to investigate and punished market manipulation, including insider dealing, and the UK Department of Trading and Industry had powers to investigate errant company behavior²⁴. However, there was no equivalent regulator in Hong Kong. The main regulatory reliance was placed upon the Listing Rules which were not backed by statute. The SFC, as the licensing body, was exclusively responsible for the regulation of sponsors²⁵.

GEM Listing Rules changes in 2008

29. Based on the responses to the 2007 Consultation Paper, the Exchange, in discussion with the SFC, re-positioned GEM from servicing the capital raising needs of emerging growth companies to providing GEM issuers with a “stepping stone” to the Main Board²⁶. Most of the original features of GEM were repealed or amended to align with those of the Main Board. The relevant rule amendments became effective on 1 July 2008 (see **Appendix III** for details):
- Introduce new quantitative admission requirements for GEM that were largely in line with those of the Main Board but less stringent²⁷.
 - Delegate the power to approve or reject GEM listing applications from the Listing Committee to the Listing Department²⁸.

²² 2007 Consultation Paper, paragraph 53 of Chapter 2

²³ 2007 Consultation Paper, paragraphs 54 and 55 of Chapter 2

²⁴ 2007 Consultation Paper, paragraph 58 of Chapter 2

²⁵ 2007 Consultation Paper, paragraph 57 of Chapter 2

²⁶ 2008 Consultation Conclusions, paragraph 2 of Part A: Introduction

²⁷ 2008 Consultation Conclusions, paragraph 14 of Part C: Proposals Adopted And Discussion Of Specific Responses

- Bring into line GEM and Main Board continuing obligations²⁹.
 - Streamline the transfer process from GEM to the Main Board³⁰. Originally, GEM issuers were required to delist from GEM and reapply for a new listing on the Main Board, and have to appoint a sponsor and issue a listing document. Under the GEM Streamlined Process, a GEM Transfer application would take the form of GEM Transfer announcement with supporting documentation (including the listing application form, directors' declarations and undertakings, etc.) which would be vetted by the Listing Department and approved by the Listing Committee. Successful transfer applicants are exempted from certain restrictions applying to new Main Board listing applicants.
30. The Exchange also adopted the proposal on gradual unification of GEM and Main Board listing rules and practice. Proposed amendments to both boards arising from the unification exercise were to be subject to public consultation³¹.

²⁸ 2008 Consultation Conclusions, paragraph 45 of Part C: Proposals Adopted And Discussion Of Specific Responses

²⁹ 2008 Consultation Conclusions, paragraph 52 of Part C: Proposals Adopted And Discussion Of Specific Responses

³⁰ 2008 Consultation Conclusions, paragraph 81 of Part C: Proposals Adopted And Discussion Of Specific Responses

³¹ 2008 Consultation Conclusions, paragraph 113, Part C: Proposals Adopted And Discussion Of Specific Responses

Overview of GEM

Number of GEM issuers

31. The number of GEM issuers has grown from seven as of 31 December 1999 to 260 as of 31 December 2016:

Chart 1: Number of newly listed GEM issuers from 1999 to 2016³²

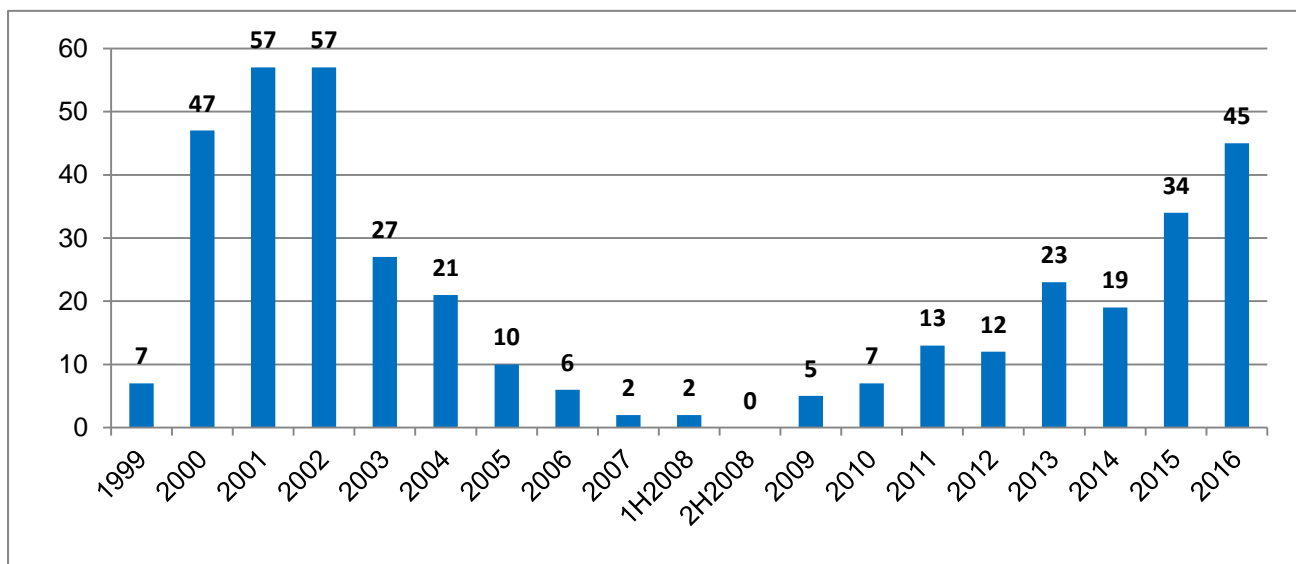
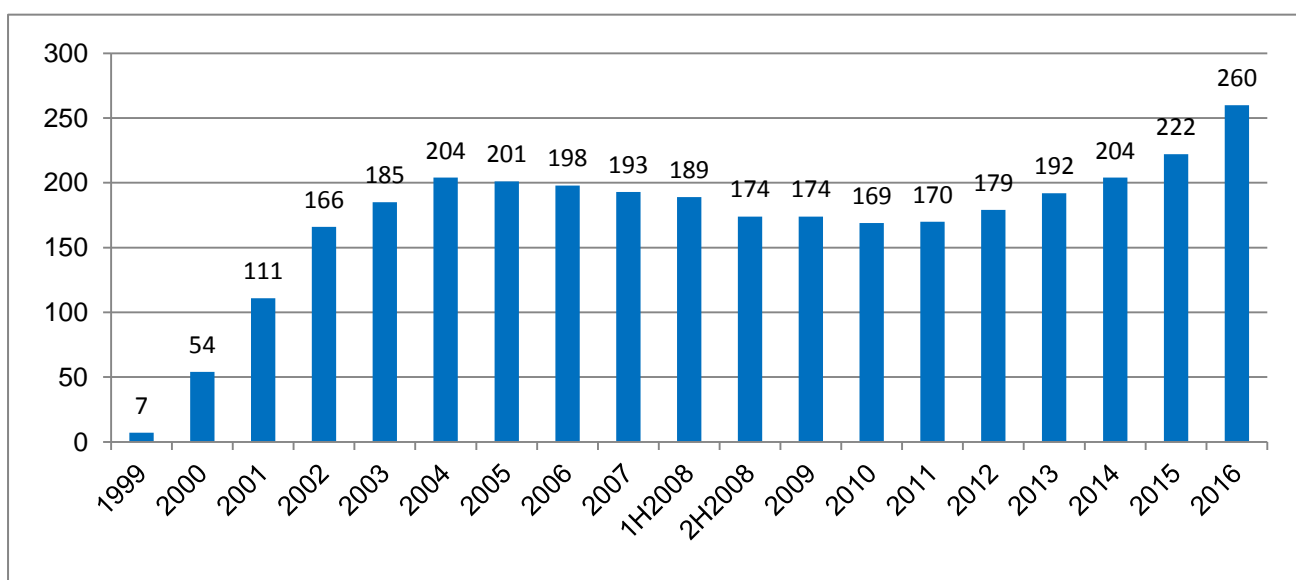


Chart 2: Number of GEM issuers from 1999 to 2016³³



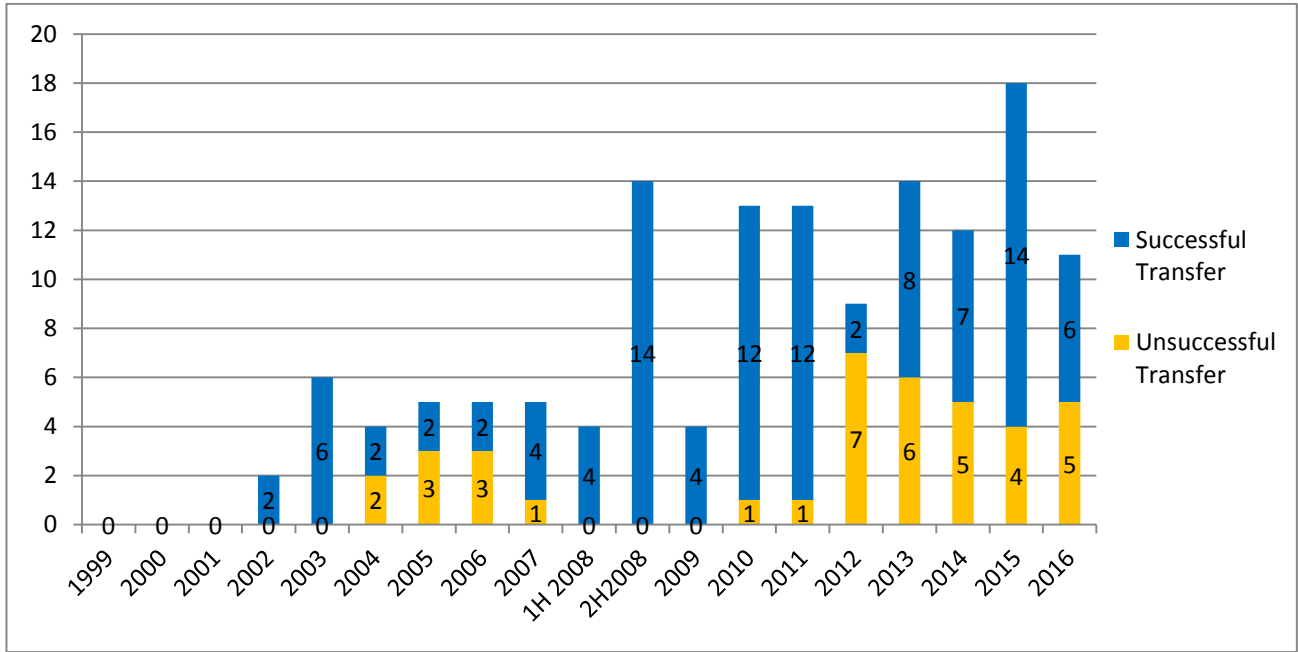
³² Source: http://www.hkgem.com/statistics/e_default.htm?ref=52

³³ Source: HKEX Fact Books (1999-2016)

Number of GEM Transfers

32. The number of GEM Transfer applications increased significantly in 2008 since the effective date of the rule changes on 1 July 2008. There were 14 successful transfers in the second half of 2008 when GEM was re-positioned:

Chart 3: Number of successful and unsuccessful GEM Transfers from 1999 to 2016³⁴



Note: There was no successful transfer between 1999 and 2001. Data on unsuccessful transfers between 1999 and 2002 not available.

³⁴ Source: the Exchange's internal data for unsuccessful GEM Transfers; http://www.hkgem.com/statistics/e_default.htm?ref=52 for successful GEM Transfers

IPO fundraising

33. The total amount of IPO fund raised by GEM issuers and the average IPO fund raised per GEM issuer has been increasing:

Table 1: IPO fund raised in GEM and Main Board from second half of 2008 to 2016³⁵

	2H 2008	2009	2010	2011	2012	2013	2014	2015	2016
IPO fund raised (HK\$mil)									
- GEM	0	356	649	1,334	1,126	3,183	2,160	2,741	4,591
- Main Board	57,373	247,871	448,828	258,456	88,916	165,776	230,357	260,348	190,206
GEM IPO fund / total GEM and Main Board IPO fund raised (%)	0%	0.14%	0.14%	0.51%	1.25%	1.88%	0.93%	1.04%	2.36%
No. of newly listed companies									
- GEM	0	5	7	13	12	23	19	34	45
- Main Board	26	68	106	88	52	87	103	104	81
Average fund raised per IPO (HK\$mil):									
- GEM	0	71	93	103	94	138	114	81	102
- Main Board	2,207	3,645	4,234	2,937	1,710	1,905	2,236	2,503	2,348

³⁵ Source: HKEX Fact Books (1999-2015) and Market Statistics 2016
(<http://www.hkex.com.hk/eng/newsconsul/hkexnews/2017/Documents/1701092news.pdf>)

Post-IPO fundraising

34. The amount of post-IPO fund raised by GEM issuers peaked in 2010, decreased for three years from 2011 to 2013 and has picked up again since 2014. GEM post-IPO fund raised as a percentage of total fund raised by both GEM and Main Board issuers reached its highest level in 2016 (5.04%) as compared with the historical range of approximately 1% to 3%:

Table 2: Post-IPO market fund raised in GEM and Main Board from second half of 2008 to 2016³⁶

	2H 2008	2009	2010	2011	2012	2013	2014	2015	2016
Post-IPO fund raised (HK\$mil)									
- GEM	4,299	4,028	12,586	6,222	4,004	5,858	11,157	19,350	14,291
- Main Board	291,022	389,863	396,658	224,378	224,378	204,046	699,043	833,203	280,447
Post-IPO fund raised in GEM / total post-IPO fund raised (both GEM and Main Board) (%)	1.46%	1.02%	3.08%	2.70%	1.86%	2.79%	1.57%	2.27%	5.04%

³⁶ Source: HKEX Fact Books (1999-2015) and Market Statistics 2016
<http://www.hkex.com.hk/eng/newsconsul/hkexnews/2017/Documents/1701092news.pdf>

Profile of GEM vs. Main Board

Table 3: Profile of GEM vs. Main Board (2016)

	GEM	Main Board (Note)	GEM as a % of Main Board
No. of companies	260	1,713	15.18%
Market capitalisation (HK\$bil) ³⁷	311	24,450	1.27%
Average market capitalisation per company (HK\$mil) ³⁸	1,210	14,694	8.23%
Total equity turnover value (HK\$mil)	116,407	11,056,704	1.05%
No. of newly listed companies	45	81	55.56%
Equity fund raised (HK\$mil)			
- Initial listing	4,591	190,725	2.41%
- Post-listing	14,291	280,447	5.10%
Index (GEM/ Hang Seng) % change over 12 months	-24.8%	0.39%	NA
Average price-earnings ratio	71.31	10.53	677%

Note: Includes issuers transferred from GEM to Main Board but excludes Chapter 20/21 companies and deemed new listing.

³⁷ The calculation of market capitalisation is set out in the Technical Notes to the HKEX Fact Book 2016

³⁸ The population of companies for calculating the average market capitalisation is 1,664 for Main Board and 257 for GEM

APPENDIX III MAJOR CHANGES TO GEM LISTING RULES IN 2008

	Requirements before 2008	Requirements effected in 2008	Revised GEM Listing Rules references
Financial requirements	No requirements	Adjusted cash flows from operating profits before changes in working capital and taxes paid of HK\$20m in aggregate for the preceding two financial years	GEM Rule 11.12A
Operating history	At least 24 months active business pursuits ¹ (may be reduced to 12 months)	Latest two financial years under substantially the same management	GEM Rule 11.12A(3)
Market capitalisation at the time of listing ("MC")	(i) MC effectively \geq HK\$46 million; or (ii) MC \geq HK\$500 million for companies with only 12 months active business pursuits	MC \geq HK\$100 million	GEM Rule 11.23(6)
Public float at the time of listing	Minimum HK\$30 million and: (i) MC at listing \leq HK\$4 billion: 25%; or (ii) MC at listing $>$ HK\$4 billion: higher of HK\$1 billion and 20%	(i) Minimum HK\$30 million and 25%, or (ii) if MC at listing $>$ HK\$10 billion: 15%-25%	GEM Rule 11.23(9)
Holding by management and major shareholders	\geq 35% in aggregate	Ownership continuity and control for most recent financial year	GEM Rule 11.12A(2)

¹ According to Note 3 to the old GEM Rule 11.12, a new applicant must be able to demonstrate that it has a business of both substance and potential.

	Requirements before 2008	Requirements effected in 2008	Revised GEM Listing Rules references
Shareholder spread	Minimum 100 non-employee shareholders (300 for companies with only 12 months active business pursuits, with the largest five and 25 holding $\leq 35\%$ and 50% respectively of securities in public hands)	Minimum 100 public shareholders and $\leq 50\%$ owned by three largest public holders	GEM Rule 11.23(8)
Lock-up period	<ul style="list-style-type: none"> - 12 months for initial management shareholders or six months if the shareholding $\leq 1\%$ - six months for significant shareholders (entitled to exercise or control 5% voting rights) 	Controlling shareholders cannot sell shares for the first six months upon listing. For the next six months, controlling shareholders can sell shares but must retain control	GEM Rule 13.16-17 repealed and GEM Rule 13.16A adopted
Underwriting and offering mechanism	<ul style="list-style-type: none"> - Underwriting not compulsory and applicants are free to decide the offering mechanism provided full disclosure in listing document - Offer price \geq HK\$1 for applicants with only 12 months active business pursuits 	Underwriting not compulsory and applicants are free to decide offering mechanism given that companies listed on GEM will tend to attract relatively less publicity in their initial public offerings ²	GEM Rule 11.12(3)(d) on minimum \$1 offer price repealed
Focused line of business	Must actively pursue a focused line of business	No requirement	GEM Rule 11.12 repealed

² 2008 Consultation Conclusions, paragraph 50

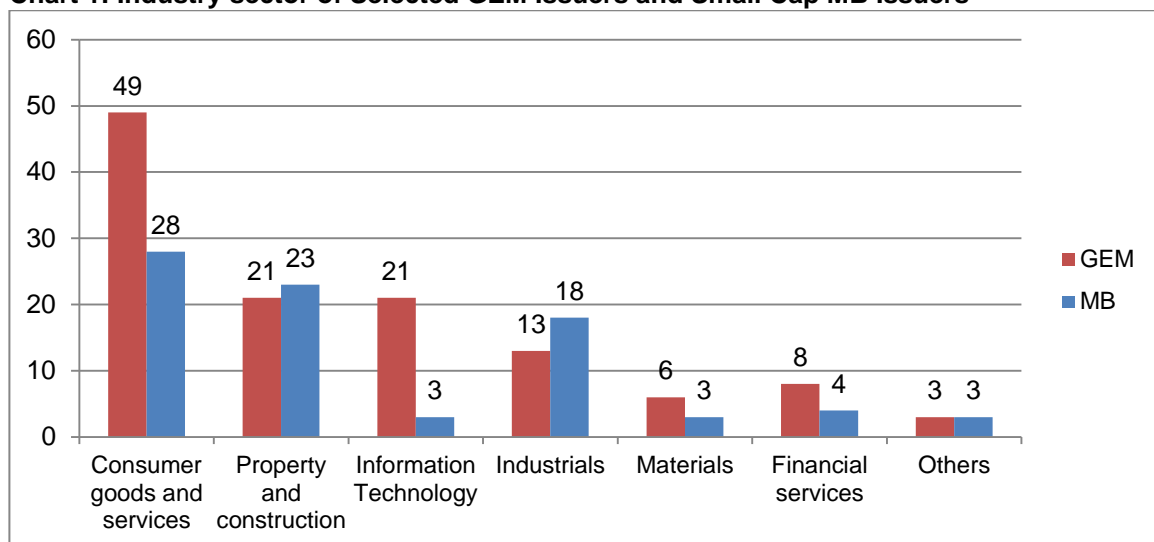
	Requirements before 2008	Requirements effected in 2008	Revised GEM Listing Rules references
Business plan	Must state the overall business objectives and explain how to achieve them after listing		Revised GEM Rule 14.19 and adopted GEM Rule 18.08A
	No requirement	Require reporting of the achievement of business objectives in first two annual reports and half-year reports	
Approval authority	Listing Committee	Delegation of listing approval from the Listing Committee to the Listing Department, with right of appeal to the Listing Committee	GEM Rule 3.05 amended
Business activity	No fundamental change in principal business activity for two years after listing, unless with Exchange's waiver and independent shareholders' prior approval	<ul style="list-style-type: none"> - No fundamental change in principal business activities within one year after listing, unless waiver is granted by the Exchange and approval by independent shareholders - Comply with spin-off requirement of separate listing of assets/ businesses of the existing group 	GEM Rules 17.25 and 19.88
Sufficiency of operations	Sufficient operations	Sufficient level of operations or tangible assets of sufficient value, and/ or intangible assets	GEM Rule 17.26
Transfer mechanism	<ul style="list-style-type: none"> - No transfer mechanism - GEM issuer must delist from GEM and then apply for a new listing on the Main Board. A listing document must be issued and a sponsor must be appointed 	<ul style="list-style-type: none"> - No sponsor is required - Require a transfer announcement with specified disclosure to be published by the issuer and pre-vetted by the Listing Department and approved by the Listing Committee 	Main Board Rules 9A.03 (2), 9A.08 and Note to GEM Rule 9.26

	Requirements before 2008	Requirements effected in 2008	Revised GEM Listing Rules references
Admission requirements for GEM Transfers to the Main Board	No transfer mechanism	<ul style="list-style-type: none"> - Meeting Main Board admission requirements - Listing status on GEM for one full financial year - No material rule breaches for one full financial year 	Main Board Rules 9A.02(1), (2) and (3)
Exemptions for GEM Transfers to the Main Board	N/A	<p>Exempt successful GEM Transfer applicants from certain restrictions applicable to new Main Board listing applicants:</p> <ul style="list-style-type: none"> - 6-month ban on new share issue - 1-year ban on fundamental changes in principal business activities, lock-up for controlling shareholders - 6-month ban on changes in control 	Main Board Rules 10.07(4), 10.08(5) and 14.89

APPENDIX IV GENERAL INFORMATION OF SELECTED GEM ISSUERS AND SMALL CAP MB ISSUERS

- For the purpose of this consultation paper, the Exchange reviewed a total of 121 newly listed GEM issuers which were listed from 2013 to 2016 (“**Selected GEM Issuers**”) and a total of 82 newly listed Main Board issuers (excluding GEM Transfers) from 2013 to 2016 which had a market capitalisation in the lowest quartile (25%) of the Main Board at listing (“**Small Cap MB Issuers**”).
- Industry sector:** Between 2013 and 2016, over 30% of both Selected GEM Issuers and Small Cap MB Issuers were in the consumer goods and services industry, and 17% of the Selected GEM Issuers and 28% of the Small Cap MB Issuers were in the property and construction industry. The others were mainly in the information technology, industrials, materials and financial services sectors. There were more Selected GEM Issuers in the Information Technology Industry (21)¹ as compared with Small Cap MB Issuers (3)². In particular, GEM issuers listed in 2016 have been in business for an average of 16 years at the time of listing. The breakdown is set out below:

Chart 1: Industry sector of Selected GEM Issuers and Small Cap MB Issuers



¹ Of these 21 Selected GEM Issuers, six produced/ traded IT hardware or semiconductors; 13 provided IT application/ software solution services; and two were online game companies.

² Of these three Small Cap MB Issuers, one was a distributor of mobile phones in Hong Kong and two provided IT application/ software solution services.

3. **Market capitalisation and offer size at IPO:** The average market capitalisation and offer size of Selected GEM Issuers was HK\$274 million and HK\$69 million, respectively, excluding seven Selected GEM Issuers with market capitalisation of HK\$1,000 million or more at the time of listing. 88% of Selected GEM Issuers (107 out of 121) had initial market capitalisation at or above HK\$150 million. The average market capitalisation and offer size of Small Cap MB Issuers were approximately 1.8 times of those of Selected GEM Issuers (excluding the seven outliers) at HK\$506 million and HK\$129 million, respectively:

Chart 2: Market capitalisation of Selected GEM Issuers (excluding the seven outliers) and Small Cap MB Issuers

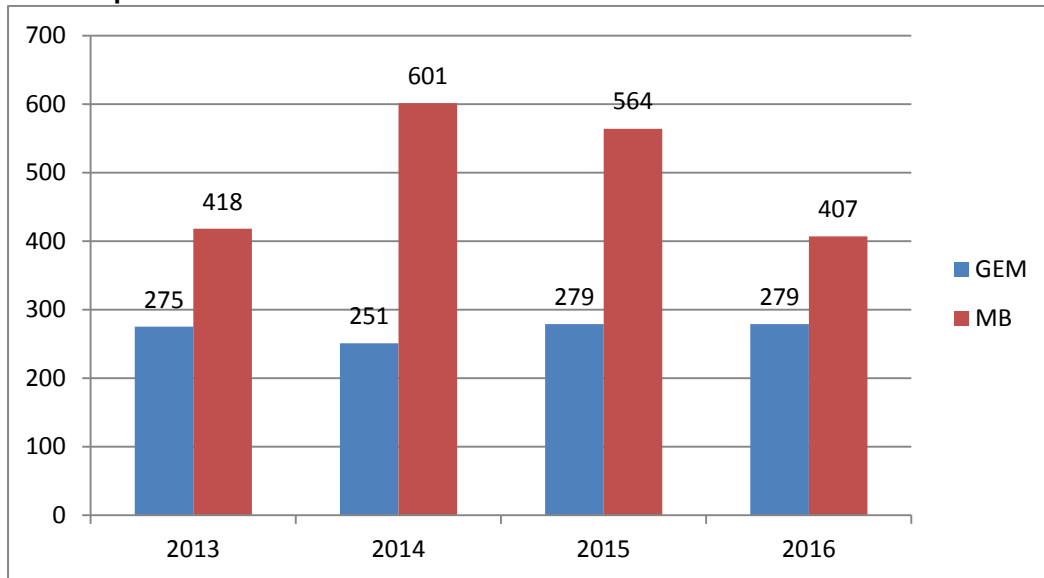
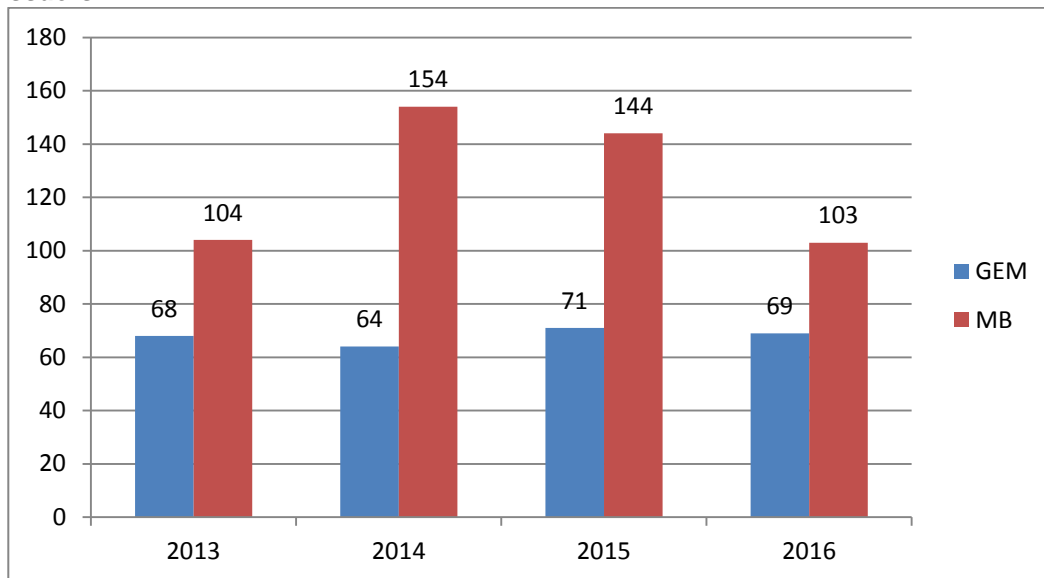


Chart 3: Offer size of Selected GEM Issuers (excluding the seven outliers) and Small Cap MB Issuers



4. **Offer structure and subscription level:** 10 Selected GEM Issuers³ and 81 Small Cap MB Issuers were listed by placing and public offering. One Selected GEM Issuer⁴ (after conducting a distribution in species) and one Small Cap MB Issuer⁵ were listed by public offering only. In both the placing and public tranches, there were more Small Cap MB Issuers with higher levels of over-subscription than Selected GEM Issuers:

Chart 4: Level of over-subscription in placing tranche

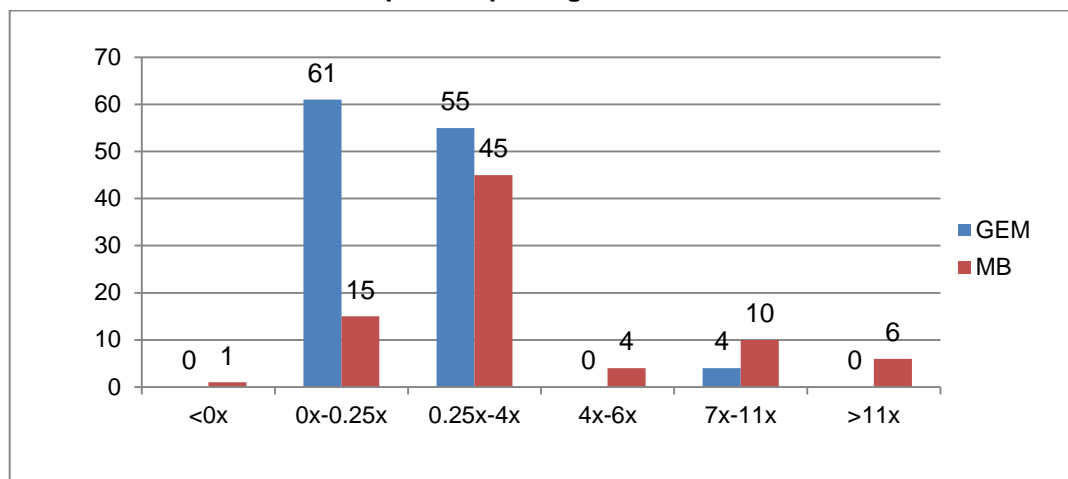
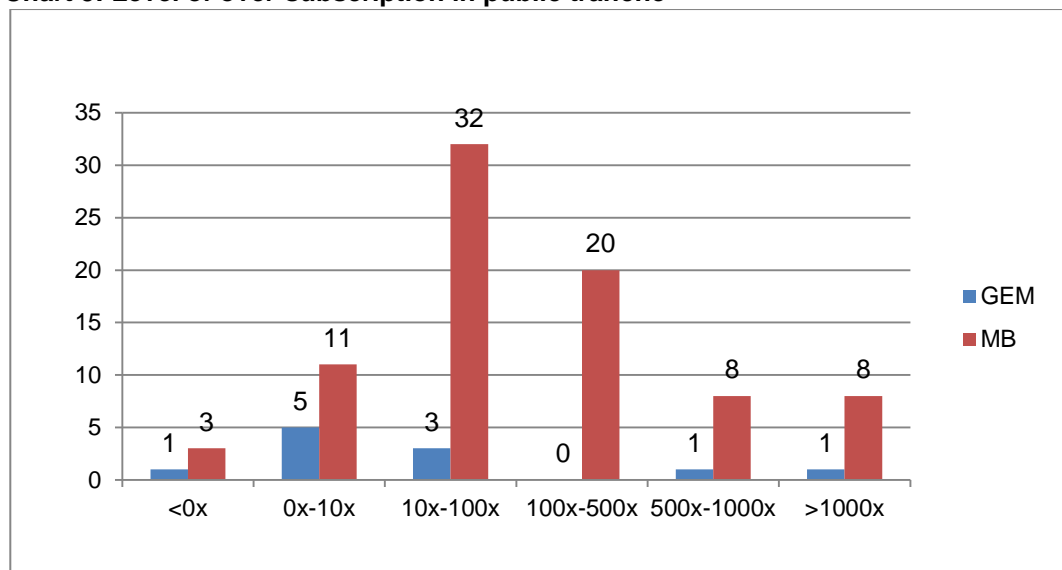


Chart 5: Level of over-subscription in public tranche



5. **Listing expense:** Based on the disclosure in the issuers' listing documents, the average listing expenses of Selected GEM Issuers (excluding the seven outliers with market capitalisation of HK\$1,000 million or more) and Small Cap MB Issuers were approximately HK\$20.6 million and HK\$28.5 million, respectively. The difference in the amount of listing expenses between Selected GEM Issuers and Small Cap MB Issuers was likely to be driven by their different offer sizes (see paragraph 3 above). GEM applicants will bear a higher listing cost if they are required to have a public offering.

³ One listed in 2013, one listed in 2014 and eight listed in 2016

⁴ Xinyi Automobile Glass Hong Kong Enterprises Limited

⁵ Ausupreme International Holdings Limited

APPENDIX V COMPARISON OF CERTAIN LISTING REQUIREMENTS OF COMPANIES LISTED ON SELECTED OVERSEAS JUNIOR EXCHANGES¹

	GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
Launch date²	25 November 1999	19 June 1995	17 December 2007	23 October 2009	11 November 1999	27 September 2005	29 November 1999
Target companies	Domestic & foreign For small to mid-sized companies	Domestic & foreign For smaller growing companies including early stage, venture capital backed and more established companies	Domestic & foreign For fast growing enterprises	Domestic For innovative and fast-growing companies, especially high-tech firms	Domestic & foreign For high-growth and emerging companies	Domestic & foreign For companies with relatively small levels of market capitalisation	Domestic & foreign For emerging companies
No. of newly listed companies in 2016³	45	64	11	72	55	31	47
IPO funds raised in 2016 (US\$m)⁴	592	1,362	77	3,879	948	N/A	26
No. of listed companies⁵ (as at 31 Dec 2016)	260	982	185	570	757	671	1648
Market capitalisation (US\$m)⁶ (as at 31 Dec 2016)	40,091	99,725	4,834	752,546	30,210	N/A	28,766

Requirement	GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)	
1	Financial eligibility requirements							
1A.	Summary comparison	Market Capitalisation (see 1C) Cash flow (see 1E)	No requirement	No requirement	(1) <u>Profits (see 1B)</u> ; or <u>Profits and Revenue (see 1B and 1D)</u> ; (2) <u>Share Capital (see 1C)</u> ; and (3) <u>Net Asset Value (see 1F)</u>	Market capitalisation (see 1C)	Choice of 3 tests: ⁸ (1) <u>Net Income Standard (see 1B, 1F and 3B)</u> ; or (2) <u>Equity Standard (see 1F and 3B)</u> ; or (3) <u>Market Value of Listed Securities Standard (see 1C, 1F and 3B)</u>	Choice of tests (Tier 1 or Tier 2) under 4 industry sectors ⁹ : <u>(1) Mining Companies</u> <i>Tier 1 – Asset (see 1F) and Working capital and financial resources requirements (see 1G)</i> <i>Tier 2 – Working capital and financial resources requirements (see 1G)</i> <u>(2) Oil & Gas (Explorations or Producing) Companies</u> <i>Tiers 1 and 2 - Working capital and financial resources requirements (see 1G)</i> <u>(3) Industrial or Technology or Life Science Companies</u>

Requirement	GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
							<p><i>Tier 1</i> – either Revenue (see 1D) or Asset (see 1F) requirement, plus Working capital and financial resources requirements (see 1G)</p> <p><i>Tier 2</i> – One of Revenue (see 1D), Asset (see 1F) or Arm’s length financing (see 1H) requirement, plus Working capital and financial resources requirement (see 1G)</p> <p><u>(4) Real Estate or Investment Companies</u></p> <p><i>Tier 1</i> – Asset (see 1F) plus Working capital and financial resources requirements (see 1G)</p> <p><i>Tier 2</i> – either Asset (see 1F) or Arm’s Length Financing requirement (see 1H), plus Working capital and</p>

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
								financial resources requirements (see 1G)
1B.	Profits test	No requirement	No requirement	No requirement	<p>(1) <u>Profits</u>¹⁰</p> <p>Net profits over last two consecutive years with aggregate amount not less than RMB10m (HK\$11.67m); or</p> <p><u>Profits & Revenue</u>¹¹</p> <p>Profits in the most recent year with revenue not less than RMB5m (HK\$5.83m) (also see 1D)</p> <p>Net profits shall be the lower of the amount stated before and after extraordinary items.</p>	No requirement	<p>(1) <u>Net Income Standard</u>¹²</p> <p>US\$0.75m (HK\$ 5.82m) net income from continuing operations (in the latest fiscal year or in two of the last three fiscal years)</p>	No requirement
1C.	Market capitalisation of new applicant	At least HK\$100m	No requirement	No requirement	<p>(2) <u>Share Capital</u></p> <p>No market capitalisation requirement, but CSRC rules require at least RMB30m (HK\$ 35m) total share capital</p>	At least 1 billion yen (HK\$71.6m) ¹⁵	<p>(3) <u>Market Value of Listed Securities Standard</u>¹⁶</p> <p>US\$50m (HK\$388.1m) market value of listed securities and the applicable bid price</p>	No requirement

Requirement	GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
				before issuance ¹³ ChiNext requires at least RMB30m (HK\$35m) total share capital after issuance ¹⁴		requirement for 90 consecutive trading days before applying for listing	

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
1D.	Revenue	No requirement	No requirement	No requirement	(1) <u>Profits and Revenue</u> Profits in the most recent year with revenue not less than RMB50m (HK\$50.83m) (see also 1B)	No requirement	No requirement	(1) <u>Industrial, Technology or Life Sciences Companies</u> ¹⁷ <i>Tier 1</i> - At least CAD5m (HK\$29.3m) revenue (or fulfil Asset requirement (see 1F)) <i>Tier 2</i> - At least CAD 0.5m (HK\$2.93m) revenue (or fulfil Asset requirement (see 1F) or Arm's length financing requirement (see 1H)) <i>Tiers 1 and 2</i> - Revenue requirement can also be exempt by a two-year management plan demonstrating reasonable likelihood of revenue within 24 months

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
1E.	Cash flow	Cash flow of at least HK\$20m generated from operating activities in the ordinary and usual course of business before changes in working capital and taxes paid for the two financial years immediately preceding the issue of the listing document	No requirement	No requirement	No requirement	No requirement	No requirement	No requirement
1F.	Assets	No requirement	No requirement	No requirement	(3) <u>Net Asset Value</u> ¹⁸ At least RMB20m (HK\$23.33m) net asset value as at the end of most recent year and there is no loss that has not been made up	No requirement	(1) <u>Net Income Standard and (3) Market Value of Listed Securities Standard</u> At least stockholders' equity US\$4m (HK\$31m) ¹⁹ (2) <u>Equity Standard</u> At least stockholders' equity US\$5m (HK\$39m) ²⁰	(1) <u>Mining Companies</u> ²¹ <i>Tier 1</i> - At least CAD2m (HK\$11.72m) net tangible assets <i>Tier 2</i> - No requirement (2) <u>Industrial, Technology or Life Sciences Companies</u> ²² <i>Tier 1</i> - At least CAD5m (HK\$29.3m) net tangible assets (or fulfil Revenue requirement (see

Requirement	GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
							<p>1D))</p> <p><i>Tier 2 - At least CAD0.75m (HK\$4.4m) net tangible assets (or fulfil either Revenue (see 1D) or Arm's Length Financing requirement) (see 1H)</i></p> <p><u>(3) Real Estate or Investment Companies</u>²³</p> <p><i>Tier 1 - Real Estate: At least CAD5m (HK\$29.3m) net tangible assets</i></p> <p><i>Investment: At least CAD10m (HK\$58.6m) net tangible assets</i></p> <p><i>Tier 2 - At least CAD2m (HK\$11.7m) net tangible assets (or fulfil Arm's length financing requirements (see 1H))</i></p>

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
1G.	Working Capital and Financial Resources	No requirement	No requirement	No requirement	No requirement	No requirement	No requirement	<p>(1) <u>Mining Companies/</u> (2) <u>Oil & Gas (Exploration or Producing) Companies/</u> (3) <u>Industrial, Technology or Life Sciences Companies/</u> (4) <u>Real Estate or Investment Companies</u>²⁴</p> <p><i>Tier 1 - Adequate working capital and financial resources to carry out stated work program or execute business plan for 18 months following listing and CAD200,000 (HK\$1.17m) in unallocated funds</i></p> <p><i>Tier 2 - Adequate working capital and financial resources to carry out stated work program or execute business plan for 12 months following listing and CAD100,000 (HK\$0.59m) in unallocated funds</i></p>

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
1H.	Arm's length financing	No requirement	No requirement	No requirement	No requirement	No requirement	No requirement	<p>(1) <u>Industrial, Technology or Life Sciences Companies</u>²⁵</p> <p><i>Tier 2</i> - CAD2m (HK\$11.7m) (or fulfil either Revenue (see 1D) or Asset requirement (see 1F))</p> <p>(2) <u>Real Estate or Investment Companies</u></p> <p><i>Tier 2</i> - CAD3m (HK\$17.55m) (or fulfil Asset requirement (see 1F))</p>

Requirement	GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)	
2	Operating, ownership, management and sponsor requirements							
2A.	Minimum operating history	Two financial years	No requirement	No requirement	Must be lawfully established with more than three years continued operations after establishment ²⁶	Conducted business activities, setting up a board of directors, for at least a year before the initial listing application day ²⁷	<u>(2) Equity Standard only</u> Two years ²⁸	<u>(1) Mining Companies/ (2) Oil & Gas (Exploration or Producing) Companies</u> ²⁹ No requirement <u>(3) Industrial, Technology or Life Sciences Companies</u> ³⁰ <i>Tiers 1 and 2 - History of operations or validation of business (period uncertain)</i> <u>(4) Real Estate or Investment Companies</u> ³¹ No requirement
2B.	Ownership continuity requirement	Throughout latest full financial year and up until the date of listing	No requirement	No requirement	No major change in the de facto controller of the applicant in the last two financial years ³²	No requirement	No requirement	No requirement

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
2C.	Management continuity requirement	Under substantially the same management throughout latest two full financial years and up until the date of listing	No requirement	No requirement	No major change in directors or senior managers of an applicant in the last two financial years ³³	No requirement	No requirement	No requirement
2D.	Sponsor requirement for listing	Yes. Sponsors are regulated by the SFC	Yes (sponsors are referred to as nominated advisers (Nomads)) ³⁴ Nomads are approved by LSE	Yes ³⁵ Sponsors are authorised and regulated by SGX	Yes ³⁶ Sponsor must be a securities firm that is registered with the CSRC and included in the CSRC's list of sponsors and has full membership of the Shenzhen Stock Exchange ³⁷	Yes (sponsors are referred to as securities companies or if they provide underwriting service, they are referred to as underwriters) ³⁸ Sponsor must be a securities company and a participant of the TSE, and regulated by TSE and its delegate, Japan Exchange Regulation (JPXR)	No, but there must be at least three registered and active market makers ³⁹	Yes, but all or part of the sponsorship requirements may be exempt if certain conditions are satisfied ⁴⁰ Sponsor must be a member of a participating organisation of the TSX ⁴¹

Requirement	GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)	
3	Shareholders, public float, lock-up period, board lot, public offer and reviewing authority requirements							
3A.	Minimum number of shareholders at the time of listing	100	No requirement	200 ⁴²	200 ⁴³	200 ⁴⁴	300 round lot holders ⁴⁵ <i>A "round lot" is 100 shares or more</i>	For all 4 industry sectors ⁴⁶ : <i>Tier 1 - 250</i> <i>Tier 2 - 200</i>
3B.	Minimum public float requirements at the time of listing	25% of total issued share capital, with: <ul style="list-style-type: none"> - not more than 50% held by 3 largest public shareholders, - a market capitalisation at least HK\$30m, and - an adequate spread of holders (at least 100 shareholders as a guideline) The Exchange may accept a lower percentage between 15% and 25% of securities held in public hands for issuers with an with an expected market capitalisation of over HK\$10 billion	No requirement	200 shareholders ⁴⁷ 15% of post-invitation share capital (not more than 5% of which have resale restriction) must be in public hands ⁴⁸	25% public float requirement; or 10% public float requirement if the share capital exceeds RMB400m (HK\$466.7m) ⁴⁹	2,000 units, 25% of shares of listed stock and with a market capitalisation of 500m yen (HK\$35.8m) ⁵⁰	1,000,000 shares with minimum bid price of at least US\$4 (HK\$31.05) per share (or a lower closing price upon meeting certain standards); and ⁵¹ <u>(1) Net Income Standard</u> ⁵² US\$5m (HK\$38.8m) of market value in publicly held shares, or <u>(2) Equity Standard and (3) Market Value of Listed Securities Standard</u> ⁵³ US\$15m (HK\$116.4m) of market value in publicly held shares	For all 4 industry sectors ⁵⁴ : <i>Tier 1 - Public float of 1m shares; 250 public shareholders each holding a board lot and having no resale restrictions (i.e. under lock-up) on their shares; 20% of issued and outstanding shares in the hands of public shareholders</i> <i>Tier 2 - Public float of 0.5m shares; 200 public shareholders each holding a board lot and having no resale restrictions on their shares; 20% of issued and outstanding shares in the hands of public shareholders</i>

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
3C.	Restriction on disposal of shares	Controlling shareholders must not dispose of shares within first 6 months of listing or within the second 6 months of listing cease to become controlling shareholder by disposing of shares	One year lock-up for all related parties and applicable employees for companies without revenue-generating independent main business for at least two years ⁵⁵	Up to 12 months depending on the shareholder type and shareholdings ⁵⁶ : -on promoters: 100% of shareholding is subject to a moratorium period of 6 months, and at least 50% of shareholding subject to a moratorium of a further 6 months; -on pre-IPO investors who acquired the shares less than 12 months before listing: a proportion of shareholding is subject to a moratorium of 12 months according to a formula -investors connected to sponsor: 6 months after listing	Controlling shareholders and de facto controllers must not dispose of shares within 36 months from date of listing ⁵⁷ Holders of shares issued before the public offering must not dispose of shares within 1 year from date of listing ⁵⁸	No requirement	No lock-up in federal laws or exchange rules. Underwriter typically enters into a lockup agreement to ensure that shares owned by insiders Terms are to be disclosed in applicant's registration documents, including its prospectus ⁵⁹	<u>For all 4 industry sectors:</u> <i>Tier 1</i> – up to 18 months for senior officers and major shareholders ^{60,61} <i>Tier 2</i> - up to 36 months for senior officers and major shareholders ⁶²

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
3D.	Board lot requirement	In practice: a minimum board lot of HK\$2,000	No requirement	At least S\$200 (HK\$1,124) based on an integral multiple of a board lot ⁶³	No requirement	100 shares per unit ⁶⁴	No requirement	(i) 1,000 shares trading at less than CAD0.10 (HK\$0.585) per share; (ii) 500 shares trading at CAD0.10 (HK\$0.585) or more and less than CAD1 (HK\$5.85) per share; or (iii) 100 shares trading at CAD1.00 (HK\$5.85) or more per share ⁶⁵
3E.	Public offer requirement at listing	No requirement	No requirement	No requirement	A public offering of more than 25% of its total shares. If the applicant's total share capital exceeds RMB400m (HK\$466.7m), the minimum percentage to be offered to the public is 10% ⁶⁶	A public offering of at least 500 units ⁶⁷	No requirement	No requirement

Requirement		GEM (Hong Kong)	AIM (The United Kingdom)	Catalist (Singapore)	ChiNext (China)	Mothers (Japan)	NasdaqCX (The United States)	TSX Venture (Canada)
3F.	Authority that reviews documents	Listing Department under delegated authority	Nomad. FCA approves AIM admission document if there is an “offer to the public” ⁶⁸	Sponsor and SGX	CSRC performs the preliminary review, followed by a review by the ChiNext Issuance Examination Committee (comprises CSRC professionals and non-CSRC experts) ⁶⁹	JPXR (delegated from TSE) ⁷⁰	NASDAQ Listing Qualifications Staff ⁷¹	TSX Venture
4	Transfer from Junior Market to the main market							
4A.	Transfer mechanism	Yes	No	Yes, both up and down ⁷²	No	Yes, also inter-tier movements (both up and down) ⁷³	No	Yes, with inter-tier movements (both up and down) between (i) TSX Venture and TSX and (ii) within Tier 1 and Tier 2 of TSX Venture ⁷⁴

5	Details of transfer mechanism in respect of GEM, Catalist, Mothers and TSX Venture to the main market (Other Selected Overseas Junior Markets do not have a transfer mechanism to the main market)				
		HK-GEM	Singapore - Catalist	Japan - Mothers	Canada-TSX Venture
5A.	Transfer to main market eligibility requirements	<ul style="list-style-type: none"> (i) Meets all the qualifications for listing on the Main Board; (ii) Has financial results for the first full financial year commencing after the date of initial listing; and (iii) In the 12 months preceding the transfer application and until the commencement of dealings, the issuer has not been subject to any disciplinary investigation by the Exchange in relation to a serious breach or potentially serious breach 	<ul style="list-style-type: none"> (i) Has been listed on Catalist for at least 2 years;⁷⁵ (ii) Meets the minimum quantitative and other listing requirements that SGX may prescribe for a Main Board Listing;⁷⁶ (iii) Provides SGX with an undertaking to comply with all SGX's requirements and policies applicable to issuers listed on SGX Main Board;⁷⁷ (iv) Shareholders' approval;⁷⁸ (v) Compliance with all applicable Catalist rules;⁷⁹ and (vi) May be required to increase the proportion of its issued and paid-up capital held in public hands to meet the minimum shareholding spread requirements as set out in Main Board Listing Rules⁸⁰ 	<ul style="list-style-type: none"> (i) Meets all the qualifications for listing on the Main Market; (ii) Business activities have been continuously carried out by setting up a board of directors three years prior to the end of a business year immediately before transfer⁸¹; and (iii) Transfer to the 1st Section from Mothers requires that at the time of transfer one year or more has passed since listing⁸² 	Meets the initial listing requirements of TSX. ⁸³

5	Details of transfer mechanism in respect of GEM, Catalist, Mothers and TSX Venture to the main market (Other Selected Overseas Junior Markets do not have a transfer mechanism to the main market)				
		HK-GEM	Singapore - Catalist	Japan - Mothers	Canada-TSX Venture
5B.	Transfer disclosure requirements	An announcement of transfer which includes, among other things, a statement that all pre-conditions for a transfer of listing have been fulfilled, the reasons for the transfer, a statement about where the relevant documents (e.g. published directors' report and annual accounts for the latest financial year, latest half-year report, constitution documents) can be found; directors' responsibility statement, information on competing business of a controlling shareholder or director; and such other information as directed by the Exchange	An Offer Information Statement (which includes offer statistics and timetable, etc.) required by the Securities and Futures Act (SFA) with the Monetary Authority of Singapore if issuer intends to offer additional securities on Main Board If no additional offer of securities, the issuer only needs to issue a shareholder's circular to approve the transfer ⁸⁴	No specific disclosure requirement. In practice, the issuer issues a press release to disclose material information ⁸⁵	A principal listing document which may be satisfied by past financial reports (e.g. a prospectus or prospectus equivalent documents such as Annual Information Form, Annual Reports, etc.) ⁸⁶
5C.	Sponsor required for transfer to Main Board	No requirement	Yes ⁸⁷	Yes ⁸⁸	Yes. Sponsorship requirements can be waived in most cases for qualified TSX Venture issuers. ⁸⁹

5	Details of transfer mechanism in respect of GEM, Catalist, Mothers and TSX Venture to the main market (Other Selected Overseas Junior Markets do not have a transfer mechanism to the main market)				
		HK-GEM	Singapore - Catalist	Japan - Mothers	Canada-TSX Venture
5D.	Sponsors' responsibility for transfer (including liability under the transfer document)	N/A	<p>Sponsor will provide corporate finance advice on certain corporate actions by the issuer, including but not limited to a transfer to Main Board. The sponsor shall exercise due care and diligence in respect of all information that it submits to the SGX and keep the SGX informed of all matters which should be brought to its attention.⁹⁰</p> <p>The sponsor is subject to disciplinary actions and/or cancellation of licence for breach of its duties under the transfer application⁹¹</p>	<p>The sponsor presents the issuer's transfer schedule, various confirmations and a recommendation letter to JPXR for examination⁹²</p> <p>The sponsor is subject to disciplinary actions and/or cancellation of licence by TSE and JPXR for breach of its duties under the transfer application⁹³</p>	<p>Sponsor is responsible for reviewing and providing comments on: (i) the issuer's qualifications for meeting all relevant listing criteria; (ii) the listing application and supporting documents; (iii) adequacy of disclosure made; (iv) any forecasts, projections, capital expenditure budgets, and independent technical reports; (v) the issuer's press releases and financial disclosures during at least the past 12 months; and (vi) the past conduct of officers, directors, promoters and major shareholders of the issuer, etc.⁹⁴</p>

¹ Sources: Websites and publications of the respective exchanges

² Sources: Websites and publications of the respective exchanges. On 27 September 2005, the Nasdaq SmallCap Market was renamed the Nasdaq Capital Market

³ Source: WFE website for GEM, Catalist, ChiNext, Mothers and TSX Venture. AIM Factsheet December 2016 for AIM. NasdaqCX: Nasdaq website

⁴ Source: WFE website for GEM, Catalist, ChiNext, Mothers and TSX Venture. Figures on AIM sourced from Bloomberg using average exchange rate for December 2016 sourced from HKMA

⁵ Source: WFE website for GEM, Catalist, ChiNext and Mothers. Page 5 of Guide to Listing for TSX Venture. AIM Factsheet December 2016 for AIM. Form 10-K for the period ending 31 December 2016 for NasdaqCX.

⁶ See 4 above

⁷ Article 11(2) and (3) of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext

⁸ Rules 5505(b)(1) (2) and (3) of NASDAQ Stock Market Equity Rules

⁹ Policy 2.1 Section 2.5 and 2.6 of Initial Listing Requirements of TSXV Corporate Finance Policies

¹⁰ Article 11(2) of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext

¹¹ Article 11(2) of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext

¹² Rule 5505(b)(3)(A) of NASDAQ Stock Market Equity Rules

¹³ Article 26(3) of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext

¹⁴ Article 11(4) of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext, Rule 5.1.1(2) of Rules Governing the Listing of Shares on ChiNext of Shenzhen Stock Exchange

¹⁵ Rule 212(4) of Securities Listing Regulations of Tokyo Stock Exchange

16 Rule 5505(b)(2)(A) of NASDAQ Stock Market Equity Rules
17 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
18 Article 11(3) of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext
19 Rules 5505(b)(2)(B) and (b)(3)(B) of NASDAQ Stock Market Equity Rules
20 Rule 5505(b)(1)(A) of NASDAQ Stock Market Equity Rules
21 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
22 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
23 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
24 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
25 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
26 Article 11(1) of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext
27 Rule 212(5) of Securities Listing Regulations of Tokyo Stock Exchange
28 Rule 5505(b)(1)(C) of NASDAQ Stock Market Equity Rules
29 For Mining companies or Oil & Gas (Exploration or Reserves) companies, subject to prior expenditures and work program requirements. See Policy 2.1 Sections 2.5 and 2.6 of TSXV
Corporate Finance Policies
30 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
31 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
32 Article 14 of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext
33 Article 14 of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext
34 Part 1 Rule 31 of AIM Rules for Companies
35 Rule 109 of Catalyst Rules of Singapore Stock Exchange
36 Rule 4.1 of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange
37 Rule 4.1 of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange
38 Defined under Section 3(1), Chapter I of 2016 New Listing Guidebook – Mothers of Tokyo Stock Exchange
39 Rule 5500(a)(4) of NASDAQ Stock Market Equity Rules
40 Policy 2.2 Sections 3.1 and 3.4(a) of Sponsorship and Sponsorship Requirements of TSXV Corporate Finance Policies, Guide to Listing – Canada’s Market
41 Policy 2.2 Section 4.1 of Sponsorship and Sponsorship Requirements of TSXV Corporate Finance Policies
42 Rule 406(1)(c) of Catalyst Rules of Singapore Stock Exchange
43 Rule 5.1.1(4) of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange
44 Rule 212(1) of Securities Listing Regulations of Tokyo Stock Exchange
45 Rule 5505(a)(3) of NASDAQ Stock Market Equity Rules
46 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
47 Rule 406(1)(c) of Catalyst Rules of Singapore Stock Exchange
48 Rule 406(1)(a) and (b) of Catalyst Rules of Singapore Stock Exchange
49 Rule 5.1.1(3) of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange
50 Rule 212(2) of the Securities Listing Regulations of Tokyo Stock Exchange
51 Rules 5505(a)(1) and (2) of NASDAQ Stock Market Equity Rules
52 Rule 5505(b)(3)(C) of NASDAQ Stock Market Equity Rules
53 Rule 5505(b)(1)(B) of NASDAQ Stock Market Equity Rules
54 Policy 2.1 Sections 2.5 and 2.6 of TSXV Corporate Finance Policies
55 Part One 7 of AIM Rules for Companies
56 Rule 422 of Catalyst Rules of Singapore Stock Exchange
57 Rule 5.1.6 of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange
58 Rule 5.1.5 of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange
59 See US SEC’s “Fast Answers” on Initial Public Offerings: Lockup Agreements (SEC website)

60 Those holding more than (a) 20% interest in the company or (b) 10% interest and have appointed one or more directors/senior officers. See definition of “Principal” under Policy 1.1 of TSXV
Corporate Finance Policies

61 Policy 5.4 Section 6.2 of TSXV Corporate Finance Policies

62 Policy 5.4 Section 6.2 of TSXV Corporate Finance Policies

63 Rule 406(1)(e) of Catalyst Rules of Singapore Stock Exchange

64 Rule 205(9) and 212(7) of the Securities Listing Regulations of Tokyo Stock Exchange⁶⁵ Definition of “Board Lot” under Policy 1.1 of TSXV Corporate Finance Policies

66 Rule 5.1.1(3) of Rules Governing the Listing of Shares on the ChiNext of Shenzhen Stock Exchange

67 Rule 212(3) of the Securities Listing Regulations of Tokyo Stock Exchange

68 Schedules Three AR4 of AIM Rules for Nominated Advisers, Rule 3.1 of the Prospectus Rules

69 Article 28 of the Administrative Measures for Initial Public Offerings and Listings of Shares on ChiNext and Shenzhen Stock Exchange website

70 Rule 3(1) of Securities Listing Regulations of Tokyo Stock Exchange

71 Page 3 of NASDAQ Initial Listing Guide

72 Part V of Catalyst Rules of Singapore Stock Exchange

73 Rule 316(1) of Enforcement Rules for Securities Listing Regulations of Tokyo Stock Exchange, Rule 313-5(1) of Securities Listing Regulations of Tokyo Stock Exchange

74 TSX Venture Exchange Policy 2.5

75 Rule 408(1) of Catalyst Rules of Singapore Stock Exchange, Rule 212(1) of Mainboard Rules of Singapore Stock Exchange

76 Rule 408(2) of Catalyst Rules of Singapore Stock Exchange, Rule 212(2) of Mainboard Rules of Singapore Stock Exchange

77 Rule 408(3) of Catalyst Rules of Singapore Stock Exchange, Rule 212(3) of Mainboard Rules of Singapore Stock Exchange

78 Rule 408(5) of Catalyst Rules of Singapore Stock Exchange

79 Rule 408(6) of Catalyst Rules of Singapore Stock Exchange

80 Rule 408(7) of Catalyst Rules of Singapore Stock Exchange

81 Section 2, Chapter IX of 2016 New Listing Guidebook – 1st and 2nd sections of Tokyo Stock Exchange

82 Section 1(2)(a), Chapter IX of 2016 New Listing Guidebook – 1st and 2nd sections of Tokyo Stock Exchange

83 Step 1 of TSX Graduation information Sheet

84 Rule 408(4) of Catalyst Rules of Singapore Stock Exchange

85 As per enquiry with TSE staff

86 Step 2 of TSX Graduation Information Sheet

87 Rule 109 of Catalyst Rules of Singapore Stock Exchange

88 Section 1(2)(b), Chapter IX of 2016 New Listing Guidebook – 1st and 2nd sections of Tokyo Stock Exchange

89 TSX Graduation Information Sheet

90 Rule 112 of Catalyst Rules of Singapore Stock Exchange

91 Rule 234(2) of Catalyst Rules of Singapore Stock Exchange

92 Section 1(2)(b), Chapter IX of 2016 New Listing Guidebook – 1st and 2nd sections of Tokyo Stock Exchange

93 Source: <http://www.jpix.co.jp/english/regulation/ensuring/maintaining/outline/index.html> and per enquiry with TSE staff

94 Section 326 of TSX Company Manual

APPENDIX VI COMPARISON OF CERTAIN INITIAL ELIGIBILITY REQUIREMENTS OF COMPANIES LISTED ON SELECTED OVERSEAS MAIN MARKETS

	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)	SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)	
1	Financial performance, market capitalisation, assets and working capital								
1A	Summary comparison	<p>Choice of 3 tests:</p> <p>(1) Profits Test (see 1B) and minimum Market Cap threshold must be met (see 1C); or</p> <p>(2) Market Cap. & Revenue & Cash Flow Test (see 1C & 1E & 1F); or</p> <p>(3) Market Cap. & Revenue Test (see 1C & 1E)</p>	<p>Choice of 3 tests:</p> <p>(1) Profits Test (see 1B); or</p> <p>(2) Market Cap. Test (see 1C); or</p> <p>(3) Assets Test (see 1G)</p> <p><i>(Note: Amendments effective December 2016)</i></p>	<p>Minimum Market Cap threshold must be met (see 1C)</p> <p>75% of the applicant's business must be supported by at least three year historic revenue earning record (see 1E)</p>	<p>Choice of 4 tests:²</p> <p>“Standard 1”: an Earnings Test only (see 1B); or</p> <p>“Standard 2”: a Market Cap. & Revenue & Cash Flow Test (see 1C & 1E & 1F); or</p> <p>“Standard 3”: a Market Cap. & Revenue Test (see 1C & 1E); or</p> <p>“Standard 4”: a Market Cap. & Total Assets & Equity Test (see 1C and 1G)</p>	<p><u>U.S. Domestic</u>³</p> <p>Choice of 2 tests:</p> <p>(1) Earnings Test (i.e. a Profits Test) (see 1B); or</p> <p>(2) Global Market Capitalisation Test (see 1C)</p> <p><i>(Note: The Valuation/ Revenue Tests and Assets and Equity Test were eliminated in September 2014, replaced by the “Global Market Capitalisation Test”)</i></p>	<p><u>Foreign Issuer</u>⁴</p> <p>Choice of 3 tests:</p> <p>(1) Earnings Test (i.e. a Profits Test) (see 1B); or</p> <p>(2) Valuation/ Revenue Test either (a) or (b) below:</p> <p>(a) Valuation / Revenue with Cash Flow Test (see 1C & 1E & 1F); or</p> <p>(b) Pure Valuation/ Revenue Test (see 1C & 1E); or</p>	<p>Choice of 3 tests:⁵</p> <p>(1) Profits Test (see 1B); or</p> <p>(2) Profits and Market Cap Test (see 1C); or</p> <p>(3) Market Cap. and Revenue Test (see 1C & 1E)</p> <p>All applicants must be in a healthy financial position, having regard to whether the Group has a positive cash flow from operating</p>	<p>Profits Test is mandatory (see 1B)</p> <p>No Market Cap. threshold requirement but minimum share capital must be met (see 1C)</p> <p>Choice of 2 further tests:</p> <p>(1) Revenue Test (see 1E); or</p> <p>(2) Cash Flow Test (see 1F)⁶</p> <p>Intangible assets (excluding land use rights, surface water irrigation rights and mining rights) must be below 20% of net assets value as at last</p>

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							(3) Affiliated Company Test (see 1C)	activities (see 1F) (Note: Amendments effective August 2012)	balance sheet date ⁷ (Note: Amendments effective January 2016)
1B	Profit test	<u>(1) Profits Test</u> HK\$20m in most recent year; HK\$30m aggregate in previous two years This profit should exclude any income or loss generated by activities outside the ordinary and usual course of its	<u>(1) Profits Test</u> Aggregate pre-tax profit from continuing operations over three financial years of at least A\$1m (HK\$5.77m) ⁸ Consolidated pre-tax profit from continuing operations for past 12 months must exceed A\$500,000 (HK\$2.89m) ⁹ (Note:	No requirement	Standard 1 Earnings Test ¹¹ Aggregate pre-tax income from continuing operations in prior three years of at least US\$11m (HK\$85.38m) Minimum pre-tax income from continuing operations in each of two most recent years of at least US\$2.2m	<u>U.S. Domestic</u> ¹² Aggregate pre-tax earnings* for last three years of at least US\$10m (HK\$77.6m) Minimum pre-tax earnings* in each of two most recent years of at least US\$2m (HK\$15.5m) and no losses in last three years OR Aggregate pre-tax earnings* for last three years of at	<u>Foreign Issuer</u> ¹³ Aggregate pre-tax earnings* for last three years of at least US\$100m (HK\$776.2m) Minimum pre-tax earnings* in each of two most recent years of at least US\$25m (HK\$194.05m)	<u>(1) Profits Test</u> Aggregate pre-tax profit of at least S\$30m (HK\$168.6m) for the last year If an applicant made low profits or losses in the 2 years before the application due to specific factors which were of a temporary nature and such adverse	Aggregate positive profits over last three consecutive years with aggregate amount exceeding RMB 30m (HK\$35m). Net profits shall be the lower of the amount stated before and after extraordinary items ¹⁴ No cumulative loss for the latest financial

APPENDIX VI COMPARISON OF CERTAIN INITIAL ELIGIBILITY REQUIREMENTS OF COMPANIES LISTED ON SELECTED OVERSEAS MAIN MARKETS

	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)	SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
		<p>business.</p> <p>The profits of any associated companies and other entities whose results are recorded in the issuer's financial statement using the equity method of accounting must be excluded</p>	<p><i>Increased from A\$400,000 (HK\$2.31m) in December 2016</i>¹⁰</p> <p><i>"Profit from continuing operations" is defined as operating profit (i.e. profit resulting from operations carried on regularly to achieve the objectives of the entity or group) before tax and disregarding profits resulting from discontinued activities</i></p>		<p>(HK\$17.08m) and a positive pre-tax income in each of the prior three years</p>	<p>least US\$12m (HK\$93.14m)</p> <p>Minimum pre-tax earnings* in most recent year of at least US\$5m (HK\$38.81m) and at least US\$2m (HK\$15.5m) in preceding year</p>	<p>factors have either ceased or are expected to be rectified upon the issuer's listing, the application may still be considered.</p> <p><i>In determining the profits, exceptional or non-recurrent income and extraordinary items must be excluded</i></p>	<p>period.¹⁵</p> <p>Net profit should not substantially rely on related party in the latest financial year¹⁶</p> <p>Net profit should not be mainly derived from off-balance sheet investment income in the latest financial year¹⁷</p> <p><i>"Net profits" means "net profits attributable to common shareholders"¹⁸ (i.e. after tax)</i></p>
						<p><i>*Pre-tax earnings for all applicants must be from continuing operations after minority interest, amortisation and equity in the earnings or losses of investees. Specific non-recurring charges/income must also be excluded¹⁹</i></p>		

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	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)		SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
1C	Aggregate market capitalisation of new applicant	<p><u>(1) Profits Test</u> Global market capitalisation: at least HK\$200m</p> <p><u>(2) Market Cap. & Revenue & Cash Flow Test</u> At least HK\$2 billion</p> <p><u>(3) Market Cap. & Revenue Test</u> At least HK\$4 billion</p>	<p><u>(3) Market Capitalisation Test</u> At least A\$15m (HK\$86.6m)²⁰ <i>(Note: Increased from A\$10m (HK\$57.7m) in December 2016²¹)</i></p> <p><i>“Market Capitalisation” means the number of securities in the main class on issue multiplied by the price decided by ASX (normally the issue price or sale price stated in the prospectus).²²</i></p>	<p>Expected aggregate market value of all securities to be <i>listed</i>: GBP 700,000 (HK\$7.36m)²³</p> <p><i>(not necessarily global market capitalisation)</i></p> <p><i>“Listed” in the context of the UK Listing Rules means “admitted to the official list maintained by the FCA in accordance with the UK Financial Services and Markets Act 2000”²⁴, i.e. listed in the UK</i></p>	<p><u>Standard 2 Market Cap. & Revenue & Cash Flow Test</u>²⁵ Average of at least US\$550m (HK\$4.27 billion) over prior 12 months</p> <p><u>Standard 3 Market Cap. & Revenue Test</u>²⁶ Average of at least US\$850m (HK\$6.6 billion) over prior 12 months</p> <p><u>“Standard 4”:</u> <u>Market Cap. & Total Asset & Equity Test</u>²⁷ At least US\$160m (HK\$1.242 billion)</p>	<p><u>U.S. Domestic</u></p> <p><u>(2) Global Market Capitalisation Test</u>²⁸ Global market capitalisation of at least US\$200m (HK\$1.55 billion)</p> <p><i>“Global market capitalisation” is not defined, generally understood as total dollar market value of all outstanding (i.e. issued) shares of a company</i></p>	<p><u>Foreign Issuer</u></p> <p><u>(2)(a) Valuation / Revenue with Cash Flow Test</u>²⁹ Global market capitalisation of at least US\$500m (HK\$3.88 billion)</p> <p><u>(2)(b) Pure Valuation / Revenue Test</u>³⁰ Global market capitalisation of at least US\$750m (HK\$5.82 billion)</p> <p><u>(3) Affiliated Company Test</u>³¹ Global market capitalisation of at least US\$500m (HK\$3.88 billion)</p>	<p><u>(2) Profits and Market Cap. Test</u> At least S\$150m (HK\$843m)</p> <p><u>(3) Market Cap. and Revenue Test</u> At least S\$300m (HK\$1.69 billion)</p> <p><i>“Market Capitalisation” is calculated based on the issue price and post-listing issued share capital.³²</i></p>	<p>No Market Cap. threshold but: CSRC rules require at least RMB 30m (HK\$35m) share capital before issuance³³</p> <p>The Shanghai Stock Exchange requires at least RMB 50m (HK\$58m) share capital after issuance³⁴</p> <p><i>“Share capital” 股本總額 is the total issued share capital</i></p>

APPENDIX VI COMPARISON OF CERTAIN INITIAL ELIGIBILITY REQUIREMENTS OF COMPANIES LISTED ON SELECTED OVERSEAS MAIN MARKETS

	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)		SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
1D	Market capitalisation of each class of securities listed	At least HK\$50m per class of securities listed	No requirement	No requirement	No requirement	No requirement		No requirement	No requirement
1E	Revenue	<p><u>(2) Market Cap. & Revenue & Cash Flow Test</u> and <u>(3) Market Cap. & Revenue Test</u></p> <p>At least HK\$500m revenue for most recent audited financial year</p>	No requirement	<p>At least 75% of the applicant's business must be supported by historic revenue earning record for the period of three years stated in accounts.</p> <p>In determining what amounts to 75% of the applicant's business, the FCA will take into account factors such as the assets, profitability and</p>	<p><u>Standard 2 Market Cap. & Revenue & Cash Flow Test</u>³⁶</p> <p>At least US\$110m (HK\$853.8m) in previous year</p> <p><u>Standard 3 Market Cap. & Revenue Test</u>³⁷</p> <p>At least US\$90m (HK\$698.6m) in previous year</p>	<p><u>U.S. Domestic</u></p> <p>No requirement</p>	<p><u>Foreign Issuer</u></p> <p><u>(2)(a) Valuation / Revenue with Cash Flow Test</u>³⁸</p> <p>US\$100m (HK\$776.2m) for most recent 12 month period</p> <p><u>(2)(b) Pure Valuation / Revenue Test</u>³⁹</p> <p>US\$75m (HK\$582.15m) for most recent fiscal year</p>	<p><u>(3) Market Cap. and Revenue Test</u></p> <p>Operating revenue (actual or pro forma) in the latest completed financial year</p>	<p><u>(1) Revenue Test</u></p> <p>Cumulative operating income of RMB 300m (HK\$350m) for last three years⁴⁰</p> <p>Operating income should not substantially rely on related party in the latest financial year⁴¹</p>

APPENDIX VI COMPARISON OF CERTAIN INITIAL ELIGIBILITY REQUIREMENTS OF COMPANIES LISTED ON SELECTED OVERSEAS MAIN MARKETS

	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)		SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
				market capitalisation of the business ³⁵					
1F	Aggregate cash flow	<u>(2) Market Cap. & Revenue & Cash Flow Test</u> Positive cash flow of at least HK\$100m in aggregate for three preceding years	No requirement	No requirement	<u>Standard 2 Market Cap. & Revenue & Cash Flow Test</u> ⁴² Aggregate in prior three fiscal years at least US\$27.5m (HK\$213.46m) Positive cash flow in each of the prior three years	<u>U.S. Domestic</u> No requirement	<u>Foreign Issuer</u> <u>(2)(a) Valuation / Revenue with Cash Flow Test</u> ⁴³ Aggregate of US\$100m (HK\$776.2m) for last three years and minimum cash flow of US\$25m (HK\$194.05m) in each of two most recent years	The applicant must be in a healthy financial position, having regard to whether the Group has a positive cash flow from operating activities ⁴⁴	<u>(2) Cash Flow Test</u> More than RMB 50m (HK\$58.3m) over last three financial years ⁴⁵
1G	Total Assets & Equity	No requirement	<u>(2) Assets Test</u> Net tangible assets of at least A\$4m (HK\$23.1m) ⁴⁶ <i>(Note: Increased from A\$3m</i>	No requirement	<u>"Standard 4": Market Cap. & Total Assets & Equity Test</u> ⁴⁸ (i) Total assets of at least US\$80m (HK\$621m);	No requirement	No requirement	No requirement	No requirement

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			(HK\$17.3m) in December 2016 ⁴⁷)		and (ii) stockholder s' equity of at least US\$55m (HK\$427m)					
2	Distribution of shareholders									
2A	Minimum number of shareholders / allocation of shareholders	300 shareholders The number of securities for public subscription divided into two pools Pool A allocated to applicants of securities to value of <= HK\$5m Pool B allocated to applicants of securities to value > HK\$5m	(1) 300 shareholders each with a parcel of securities with a value of at least A\$2,000 (HK\$11,540) (excluding restricted securities and securities subject to voluntary escrow)(i.e. with resale condition) ⁴⁹ (Note: Amendments to minimum spread	The various categories of potential investors to which the securities are offered must be disclosed in prospectus. If a tranche has been or is being reserved for certain potential investors, this must be disclosed in prospectus ⁵²	<u>Initial Public Offerings</u> ⁵³ 450 "round lot" shareholders; or 2,200 shareholders Seasoned companies with currently trading common stock or equivalents and affiliated companies: 550 shareholders	<u>U.S Domestic</u> ⁵⁴ 400 "round lot" shareholders; or where company is listed in connection with a transfer or quotation: 2,200 shareholders and 100,000 shares monthly trading volume	<u>Foreign Issuer</u> ⁵⁵ 5,000 shareholders	500 shareholders ⁵⁶ < S\$75m (HK\$422m) <u>Offer Size</u> 40% of the invitation shares or S\$15m (HK\$84.3m) whichever is lower, distributed to investors each allotted not more than 0.8% of the invitation shares or	No requirement (Note: We understand the previous requirement for 1,000 persons with shares of a value greater than RMB 1,000 (HK\$1,166.7) was abolished in the 2005 Securities and Company Law Amendments.) ⁵⁷	

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	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)	SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
		IPOs must initially allocate 10% of shares in IPO to subscription tranche and then use a clawback mechanism to increase number of shares allocated to subscription tranche to either 30%, 40% or 50% based on demand	<i>requirements effective December 2016⁵⁰</i> In addition, ASX retains discretion to impose a “residency requirement” for the spread. ASX sets out circumstances under which it is likely to exercise such discretion (typically 75% of minimum spread to come from investors resident in Australia) ⁵¹		and 1.1 million shares average monthly trading volume over past 12 months	in most recent 6 months; or 500 shareholders and 1 million shares monthly trading volume in most recent 12 months	S\$300,000 (HK\$1.69m) worth of shares, whichever is lower <u>Offer Size ≥ S\$75m (HK\$422m) and < S\$120m (HK\$674m)</u> 20% of the invitation shares must be distributed to investors, each allotted not more than 0.4% of the invitation shares <u>≥ S\$120m (HK\$674m)</u> <u>Offer Size</u> No distribution requirement	

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	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)		SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
2B	Minimum shares in public hands	<p>25% of total issued share capital of the applicant, of which more than 50% must not be held by the 3 largest public shareholders</p> <p>The Exchange may accept a lower percentage of between 15% and 25% of securities held in public hands for issuers with an expected market capitalisation of over HK\$10 billion</p>	<p>20% minimum free float at listing. "Free float" is defined as the % of the issuer's main class of securities that are not restricted securities or subject to voluntary escrow, and that are held by "non-affiliated security holders" i.e. a holder who is not a related party of the issuer or an associate of a related party.⁵⁸</p> <p><i>(Note: Requirement for minimum free float introduced in December 2016)</i></p>	<p>25% of shares</p> <p>Any person or persons in the same group or persons acting in concert who have an interest in 5% or more of the shares of the relevant class are not considered public shareholders⁵⁹</p>	<p>1.25 million shares, which must have a market value of⁶⁰:</p> <p><u>Initial Public Offerings, Spin-Off Companies and Affiliated Companies</u></p> <p>US\$45m (HK\$349.3m)</p> <p><u>Seasoned companies currently trading</u></p> <p>US\$110m (HK\$853.8m)</p> <p>or</p> <p>US\$100m (HK\$776.2m) if the company has stockholders' equity of at least US\$110m</p>	<p><u>U.S Domestic</u>⁶¹</p> <p>1.1 million shares</p>	<p><u>Foreign Issuer</u>⁶²</p> <p>2.5 million shares worldwide</p> <p>With a minimum public value of US\$100m (HK\$776.2m) (or US\$60m (HK\$465.7m) if company listed under <u>Affiliated Company Standard</u>)</p>	<p>Shares in public hands must also be distributed depending upon market capitalisation of the applicant⁶³:</p> <p>< S\$300m (HK\$1,686m) <u>Market Capitalisation</u></p> <p>25% of shares must be in public hands</p> <p><u>Market Capitalisation ≥ S\$300m (HK\$1,686m) and < S\$400m (HK\$2,248m)</u></p> <p>20% of shares must be in public hands</p> <p><u>Market</u></p>	<p><u>Post-listing total share capital ≤ RMB 400m (HK\$467m)</u>⁶⁴</p> <p>25% of company's total share capital</p> <p><u>Post-listing total share capital > RMB 400m (HK\$467m)</u></p> <p>10% of company's total share capital</p>

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					(HK\$853.8m)			<u>Capitalisation ≥ S\$400m (HK\$2,248m) and < S\$1,000m (HK\$5,620m)</u> 15% of shares must be in public hands <u>Market Capitalisation ≥ S\$1,000m (HK\$5,620m)</u> 12% of shares must be in public hands	
3	Financial information								
3A	Accountants Report	Must cover the minimum 3 year operating history and any stub period. The	The applicant must give ASX audited accounts for the last 3 years. The audit report or review must	The applicant must have 3 years' worth of independently audited accounts which must not be	(Same SEC requirements as applicable to NYSE applicants)	Registration Statement must contain audited financial statements covering the applicant's last 3 fiscal years (Note: audited balance sheets as at the end of the 2 most recent fiscal years ⁶⁷ and consolidated statements of income and changes in financial		Provide annual combined financial statements of the group for the 3 most recent	The formulation of the issuer's financial statements shall satisfy the provisions on enterprise

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		report must not be more than 6 month older than the date of the prospectus	not contain a modified opinion, emphasis of matter or other matter that ASX considers unacceptable ⁶⁵	more than 6 months older than the date of the prospectus/listing particulars. The accounts must have been reported on by the auditors without modification ⁶⁶		positions for the 3 most recent fiscal years ⁶⁸). Only 2 years of audited financial statements are required for Emerging Growth Companies ⁶⁹ under the JOBS Act If the applicant has not been in existence that long, financial information covering the applicant's predecessor entities may need to be provided ⁷⁰	completed financial years ⁷¹ If the applicant has not been in existence for 3 years then the annual financial statements for every year since it has been in existence or, if the applicant is a holding company, since any entity in its group has been in existence ⁷²	accounting standards and the relevant accounting rules, which shall, in all material aspects, fairly reflect its financial status, business achievements and cash flow. An auditor's report shall be produced by an accounting firm, giving an unqualified opinion thereon ⁷³

APPENDIX VI COMPARISON OF CERTAIN INITIAL ELIGIBILITY REQUIREMENTS OF COMPANIES LISTED ON SELECTED OVERSEAS MAIN MARKETS

	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)	SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
4	Purchases, subscription and disposals							
4A	Restrictions on purchase and subscription	Normally, no more than 10% of securities being marketed for which listing is sought may be offered to employees or past employees of the issuer or its subsidiaries or associated companies and their respective dependents Securities must not be offered to directors or existing	Corporations Act 2001 requires a prospectus to disclose the interests of directors (or proposed directors), professional advisers, promoters, and underwriters in the offer ⁷⁴	To the extent known to the issuer, an indication of whether major shareholders or members of the issuer's management, supervisory or administrative bodies intend to subscribe in the offer, or whether any person intends to subscribe for more than five per cent of the offer must be disclosed in prospectus ⁷⁵	(Same SEC requirements as applicable to NYSE applicants)	The "Plan of distribution" section of the Registration Statement filed with the SEC must disclose subscription by major shareholders, directors or management to the offering and whether any person intends to subscribe for more than 5% of the offering. This section must also disclose any preferential allocation arrangements ⁷⁶	The issuer may reserve up to 10% of the offered securities for allocation and allotment to its employees, directors, customers, suppliers and persons who have contributed to the success of the issuer ⁷⁷	In the placing tranche, issuer and the lead underwriter are not allowed to place to certain categories of persons, including (i) the issuer's shareholders, directors, senior management and employees etc. nor (ii) shareholders of 5% or more of the lead underwriter and the lead underwriter's directors, senior management and employees, etc ⁷⁸

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	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)	SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
		shareholders on a preferential basis						
4B	Restriction on disposal of shares	Controlling shareholders must not dispose of shares within first 6 months of listing or within the second 6 months of listing cease to become controlling shareholder by disposing of shares	If an issuer is not listed under the Profit Test and does not have a track record of profitability or revenue acceptable to ASX, or a substantial portion of its assets are not tangible assets or assets with a readily ascertainable value, a portion of its securities ("restricted	Details of any restrictions agreed by administrative, management and supervisory bodies and senior management on the disposal within a certain period of time of their holdings in the issuer's securities must be disclosed in prospectus A description of any arrangements, known to the	(Same SEC requirements as applicable to NYSE applicants)	Before a company goes public, the company and its underwriter typically enter into a lockup agreement to ensure that shares owned by these insiders don't enter the public market too soon after the offering The terms of lockup agreements may vary, but most prevent insiders from selling their shares for a period of 180 days. Lockups may also limit the number of shares that can be sold over a designated period of time. The federal securities laws do not govern the actual terms of lockup agreements, but they require a company employing a lockup to disclose the terms in its registration documents, including its prospectus ⁸¹	<u>(1) Profits Test and (2) Profits and Market Cap. Test</u> ⁸² If an applicant met this test, 100% of the promoter's shareholding is subject to a moratorium for at least six months after listing <u>(3) Market Capitalisation Test</u> If an applicant met this test, 100% of the	<u>Promoters must not transfer their shares within 1 year from the date of the issuer's incorporation</u> ⁸³ <u> Holders of shares issued before the public offering must not transfer their shares within 1 year from the date of listing</u> ⁸⁴ <u>Directors, supervisors and senior management</u>

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			securities”) issued to certain types of persons (e.g. seed capitalists, promoters, vendors, employees, consultants) may be subject to “escrow” and cannot be sold or transferred by the holders for a particular period of time ⁷⁹	issuer, the operation of which may at a subsequent date result in a change in control of the issuer must be disclosed in prospectus ⁸⁰			promoter’s shareholding is subject to a moratorium for at least six months after listing and at least 50% of the shareholding is subject to a moratorium for a further six months <u>Investors with 5% or more interest</u> A proportion of the shareholding of such shareholders who purchased their securities less than 12 months prior to the date of the	must not transfer their shares within the first year of listing and must not transfer more than 25% of their shares for every year of their appointment. They also must not transfer their shares within 6 months of leaving the issuer’s employment ⁸⁵ The controlling shareholder and de facto controllers are required to make an undertaking to the exchange not to sell their shares for 36

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	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)	SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
							<p>listing application will be subject to a moratorium for six months after listing (amount of shares subject to moratorium is computed based on a cash formula)</p> <p><u>Investors with less than 5% interest</u></p> <p>A proportion of the shareholding (which remains unsold at the time of IPO) of such shareholders who purchased their securities less than 12 months prior to</p>	<p>months after listing⁸⁶</p>

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	REQUIREMENT	Main Board (Hong Kong)	ASX (Australia)	FCA for premium listed securities (The United Kingdom)	Nasdaq Global Select Market ¹ (The United States)	NYSE (The United States)	SGX Main Board (Singapore)	SSE Main Board (China, Shanghai)
							<p>the date of the listing application will be subject to a moratorium for six months after listing (amount of shares subject to moratorium is computed based on a cash formula)</p> <p><u>Investors connected to issue manager</u></p> <p>100% of the shareholding of such investors is subject to a moratorium for six months after listing</p>	

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- ¹ The Nasdaq Global Select Market is the Nasdaq market tier with the highest initial listing standards. Other Nasdaq markets with lower initial listing standards are the Nasdaq Global Market and the Nasdaq Capital Market. An issuer seeking to list on either the Nasdaq Global Select Market or the Nasdaq Global Market will be approved for the market tier with the highest listing standards that the company meets
- ² Rule 5315(f)(3) of Nasdaq Stock Market Rules
- ³ Section 102.01C of NYSE Listed Company Manual
- ⁴ Section 103.01B of NYSE Listed Company Manual
- ⁵ Rule 210 of SGX Listing Rules
- ⁶ Article 26 of the Measures for Administration of Initial Public Offering and Listing of Securities 《首次公开发行股票并上市管理办法》 (“IPO Measures”). The latest version came into effect on 1 January 2016, per the CSRC Decision on Amending the IPO Measures issued on 30 December 2015
- ⁷ Article 26(4) of the IPO Measures
- ⁸ Rule 1.2.4 of ASX Listing Rules
- ⁹ Rule 1.2.5 of ASX Listing Rules
- ¹⁰ Response to Consultation Paper: Updating ASX’s admission requirements for listed entities published on 2 November 2016, with changes effective on 19 December 2016
- ¹¹ Rule 5315(f)(3)(A) of Nasdaq Stock Market Rules and Nasdaq Initial Listing Guide
- ¹² Section 102.01C(I)(1) of NYSE Listed Company Manual
- ¹³ Section 103.01B(I)(1) of NYSE Listed Company Manual
- ¹⁴ Article 26(1) of the IPO Measures
- ¹⁵ Article 26(5) of the IPO Measures
- ¹⁶ Article 30(3) of the IPO Measures
- ¹⁷ Article 30(4) of the IPO Measures
- ¹⁸ “Net profits” is not defined in the IPO Measures. See Rule 18.1(14) of the Listing Rules of Shanghai Stock Exchange (“SSE Listing Rules”)
- ¹⁹ Section 102.01C(I)(1) & 103.01B(I)(1) of NYSE Listed Company Manual
- ²⁰ Rule 1.3.1 of ASX Listing Rules
- ²¹ Response to Consultation Paper: Updating ASX’s admission requirements for listed entities published on 2 November 2016, with changes effective on 19 December 2016
- ²² Rule 19.12 (Definitions) of the ASX Listing Rules
- ²³ Rule 2.2.7 of UK Listing Rules
- ²⁴ Definition of “listed” in the FCA Handbook
- ²⁵ Rule 5315(f)(3)(B) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide. In the case of a company listing in connection with its initial public offering, compliance with the market capitalisation requirements will be based on the company’s market capitalisation at the time of listing rather than over the prior 12 months
- ²⁶ Rule 5315(f)(3)(C) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide
- ²⁷ Rule 5315(f)(3)(D) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide
- ²⁸ Section 102.01C(II) of NYSE Listed Company Manual
- ²⁹ Section 103.01B(II)(a)(1) of NYSE Listed Company Manual
- ³⁰ Section 103.01B(II)(b)(1) of NYSE Listed Company Manual
- ³¹ Section 103.01B(III)(1) of NYSE Listed Company Manual
- ³² Rule 210(2) of SGX Listing Rules
- ³³ Article 26(3) of the IPO Measures
- ³⁴ Rule 5.1.1(2) of SSE Listing Rules
- ³⁵ Rule 6.1.3, 6.1.3B and 6.1.3C of the UK Listing Rules
- ³⁶ Rule 5315(f)(3)(B) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide
- ³⁷ Rule 5315(f)(3)(C) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide

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- 38 Section 103.01B(II)(a)(2) of NYSE Listed Company Manual
39 Section 103.01B(II)(b)(2) of NYSE Listed Company Manual
40 Article 26(2) of the IPO Measures
41 Article 30(3) of the IPO Measures
42 Rule 5315(f)(3)(B) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide
43 Section 103.01B(II)(b)(2) of NYSE Listed Company Manual
44 Rule 210(4)(a) of SGX Listing Rules
45 Article 26(2) of the IPO Measures
46 Rule 1.3.1(a) of ASX Listing Rules
47 Response to Consultation Paper: Updating ASX's admission requirements for listed entities published on 2 November 2016, with changes effective on 19 December 2016
48 Rule 5315(f)(3)(D) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide
49 Rule 1.1 condition 8 of ASX Listing Rules
50 Response to Consultation Paper: Updating ASX's admission requirements for listed entities published on 2 November, with changes effective on 19 December 2016
51 Paragraph 3.8 of ASX Listing Rules Guidance Note 1
52 Paragraph 5.2.1 of Annex III of Appendix 3 of the UK Prospectus Rules
53 Section 5315(f)(1) of Nasdaq Stock Market Rules and Nasdaq Initial Listing Guide
54 Section 102.01A of NYSE Listed Company Manual
55 Section 103.01A of NYSE Listed Company Manual
56 Rule 210(1)(a) of the SGX Listing Rules
57 The 2005 Securities Law and the 2005 Company Law of China were revised and adopted at the 18th Meeting of the Standing Committee of the tenth National People's Republic of China on October 27, 2005
58 Rule 1.1 condition 7 and Rule 19.12 of ASX Listing Rules
59 Rule 6.1.19 of UK Listing Rules
60 Rules 5315 (e)(2) and 5315(f)(2) of Nasdaq Stock Market Rules, and Nasdaq Initial Listing Guide
61 Section 102.01A of NYSE Listed Company Manual
62 Section 103.01A of NYSE Listed Company Manual
63 Rule 210(1)(a) of the SGX Listing Rules
64 Rule 5.1.1(3) of SSE Listing Rules
65 Rule 1.2.3(a) of ASX Listing Rules
66 Rule 6.1.3 of UK Listing Rules
67 Regulation S-X Rule 3-01(a)
68 Regulation S-X Rule 3-02(a)
69 Defined under the JOBS Act as an issuer that had total annual gross revenue of less than US\$1b during its most recently completed fiscal year. Section 102.01C(I)(1) of NYSE Listed Company Manual
70 Regulation S-X Rule 3-01 and 3-02, the requirements of which are incorporated into various registration forms
71 In the case of a reverse takeover where there have been material changes to the group structure of the issuer, or in the case of a listing of a REIT or a business trust, proforma group accounts must be presented in addition to the annual combined audited accounts, where applicable. The proforma accounts should be presented for the latest 3 financial years and for the most recent interim period (if applicable) as if the restructured group had been in existence at the beginning of the period reported on (Rule 609 of SGX Listing Rules)
72 Paragraph 2 of Part IX of the Fifth Schedule to the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore
73 Article 23 of the IPO Measures

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- ⁷⁴ Section 711(2) and (4) of the Corporations Act of Australia
- ⁷⁵ Paragraph 5.2.2 of Annex III of Appendix 3 of the UK Prospectus Rules
- ⁷⁶ Item 9 paragraph B of US SEC Form 20-F
- ⁷⁷ Rule 234 of SGX Listing Rules
- ⁷⁸ Article 16 of the Administrative Measures for Securities Issuance and Underwriting. The latest version came into effect on 1 January 2016, per the CSRC Decision on Revising the Administrative Measures for Securities Issuance and Underwriting issued on 30 December 2015.
- ⁷⁹ Rule 9.1, and Appendices 9A and 9B of ASX Listing Rules
- ⁸⁰ Paragraphs 14.2 and 18.4 of Annex I of Appendix 3 of the UK Prospectus Rules
- ⁸¹ See US SEC's "Fast Answers" on Initial Public Offerings: Lockup Agreements (<https://www.sec.gov/fast-answers/answerslockuphtm.html>) and Section X(C)(1)(c) of Securities Act Release No. 7606A
- ⁸² Rule 229 of SGX Listing Rules
- ⁸³ Article 141 of PRC Companies Law
- ⁸⁴ Article 141 of PRC Companies Law
- ⁸⁵ Article 141 of PRC Companies Law
- ⁸⁶ Rule 5.1.5 of SSE Listing Rules

APPENDIX VII PERSONAL INFORMATION COLLECTION AND PRIVACY POLICY

Hong Kong Exchanges and Clearing Limited and from time to time, its subsidiaries, affiliated companies controlling it or under common control with it and its joint ventures (each such entity, from time to time, being “**HKEX**”, “**we**”, “**us**” or an “**affiliate**” for the purposes of this Privacy Policy Statement as appropriate) recognises its responsibilities in relation to the collection, holding, processing, use and/ or transfer of personal data under the Personal Data (Privacy) Ordinance (Cap. 486) (“**PDPO**”). Personal data will be collected only for lawful and relevant purposes and all practicable steps will be taken to ensure that personal data held by HKEX is accurate. HKEX will use your personal data in accordance with this Privacy Policy Statement.

We regularly review this Privacy Policy Statement and may from time to time revise it or add specific instructions, policies and terms. Where any changes to this Privacy Policy Statement are material, we will notify you using the contact details you have provided us with and, as required by the PDPO, give you the opportunity to opt out of these changes by means notified to you at that time. Otherwise, in relation to personal data supplied to us through the HKEX website, continued use by you of the HKEX website shall be deemed to be your acceptance of and consent to this Privacy Policy Statement.

If you have any questions about this Privacy Policy Statement or how we use your personal data, please contact us through one of the communication channels below.

HKEX will take all practicable steps to ensure the security of the personal data and to avoid unauthorised or accidental access, erasure or other use. This includes physical, technical and procedural security methods, where appropriate, to ensure that the personal data may only be accessed by authorised personnel.

Please note that if you do not provide us with your personal data (or relevant personal data relating to persons appointed by you to act on your behalf) we may not be able to provide the information, products or services you have asked for or process your request.

Purpose

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.

Direct marketing

Except to the extent you have already opted out or in future opt out, we may also use your name, mailing address, telephone number and email address to send promotional materials to you and conduct direct marketing activities in relation to our financial services and information services, and related financial services and information services offered by our affiliates.

If you do not wish to receive any promotional and direct marketing materials from HKEX or do not wish to receive particular types of promotional and direct marketing materials or do not wish to receive such materials through any particular means of communication, please contact us through one of the communication channels below.

Identity Card Number

We may also collect your identity card number and process this as required under applicable law or regulation, as required by any regulator having authority over us and, subject to the PDPO, for the purpose of identifying you where it is reasonable for your identity card number to be used for this purpose.

Transfers of personal data for direct marketing purposes

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.

Other transfers of personal data

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.

How we use cookies

If you access our information or services through the HKEX website, you should be aware that cookies are used. Cookies are data files stored on your browser. The HKEX website automatically installs and uses cookies on your browser when you access it. Two kinds of cookies are used on the HKEX website:

Session Cookies: temporary cookies that only remain in your browser until the time you leave the HKEX website, which are used to obtain and store configuration information and administer the HKEX website, including carrying information from one page to another as you browse the site so as to, for example, avoid you having to re-enter information on each page that you visit. Session cookies are also used to compile anonymous statistics about the use of the HKEX website.

Persistent Cookies: cookies that remain in your browser for a longer period of time for the purpose of compiling anonymous statistics about the use of the HKEX website or to track and record user preferences.

The cookies used in connection with the HKEX website do not contain personal data. You may refuse to accept cookies on your browser by modifying the settings in your browser or internet security software. However, if you do so you may not be able to utilise or activate certain functions available on the HKEX website.

Compliance with laws and regulations

You agree that HKEX and its affiliates may be required to retain, process and/ or disclose your personal data in order to comply with applicable laws and regulations, or in order to comply with a court order, subpoena or other legal process, or to comply with a request by a government authority, law enforcement agency or similar body (whether situated in Hong Kong or elsewhere). You also agree that HKEX and its affiliates may need to disclose your personal data in order to enforce any agreement with you, protect our rights, property or safety, or the rights, property or safety of our affiliates and employees.

Corporate reorganisation

As HKEX continues to develop its business, we may reorganise our group structure, undergo a change of control or business combination. In these circumstances it may be the case that your personal data is transferred to a third party who will continue to operate our business or a similar service under either this Privacy Policy Statement or a different privacy policy statement which will be notified to you. Such a third party may be located, and use of your personal data may be made, outside of Hong Kong in connection with such acquisition or reorganisation.

Access and correction of personal data

Under the PDPO, you have the right to ascertain whether HKEX holds your personal data, to obtain a copy of the data, and to correct any data that is inaccurate. You may also request HKEX to inform you of the type of personal data held by it. All data access requests shall be made using the form prescribed by the Privacy Commissioner for Personal Data (“**Privacy Commissioner**”) which may be found on the official website of the Office of the Privacy Commissioner.

Requests for access and correction or for information regarding policies and practices and kinds of data held by HKEX should be addressed in writing and sent by post to us (see contact details below).

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

Termination or cancellation

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

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