RSM CONSULTING MONTHLY ALERT

Welcome to the RSM Consulting Monthly Alert covering the latest news on risk advisory and cybersecurity, transaction and valuation updates, IT trends and upcoming events.

NEW CONSULTATION FROM THE STOCK EXCHANGE OF HONG KONG

RSM's Transaction Advisory feedback on the HKEX's New Board Concept Paper, Consultation Paper on the Review of GEM and Changes to Listing Rules [PART 2]

Key matters proposed in the Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules Consultation Paper

- To re-position GEM as a stand-alone board and hence remove the GEM Streamlined Process for GEM Transfers
- To increase the cashflow requirement from at least HK$20 million to at least HK$30 million
- To increase the minimum market capitalization requirement from HK$100 million to HK$150 million for GEM, and from HK$200 million to HK$500 million for the Main Board
- 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
- To introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs
- To require GEM Transfer applicants to appoint a sponsor and issue a “prospectus standard” listing document to ensure appropriate due diligence is performed and full disclosure is made

RISKS UNDERSTOOD
POWER DELIVERED

Mitigate your business risks and empower you to win with confidence.
Do you agree with the proposal to increase the cashflow requirement (of GEM) from at least HK$20 million to at least HK$30 million?

GEM should be the listing platform for small and medium-sized enterprises (‘SME’).

The proposed increase in the cashflow requirement from at least HK$20 million to HK$30 million will significantly impact potential listing applicants to GEM. For example, if the HK$30 million cash flow requirement were applied, there would be 9 out of 34, 19 out of 45 and 18 out of 35 GEM listed companies which fail to meet the listing requirements during FY15, FY16 and H1 FY17. The increased cashflow requirement will not resolve the quality issue on GEM but rather will discourage certain listing applicants meeting the current HK$20 million cash flow requirement from listing in Hong Kong and these applicants may choose another stock exchange.

On the other hand, we believe that the stricter requirements on the IPO lock-up period and mandatory public offering percentage may be effective in preventing the abuse of “shell” companies.

Do you agree with the proposal to increase the minimum market capitalization requirement at listing for Main Board applicants from at least HK$200 million to at least HK$500 million?

The increase of the minimum market capitalization requirement may in practice lead to a higher threshold for the profit level of Main Board listing applicants (as market practitioners normally consider market capitalization to be linked to profit level). Any increase in such requirements may cause potential listing applicants to switch to other exchanges for listing if they cannot meet the increased requirements.

The increase from at least HK$200 million to HK$500 million is substantial and appears to be somewhat unreasonable. From 2015 to the first half of 2017, there were between 54% to 63% of listed companies on the Main Board with a P/E ratio of lower than 15 times (including companies generating no profits and transfers from GEM). Assuming the significant increase in the required market capitalization to HK$500 million, these companies would be required to increase their profit level to 2.5 times the current profit level to achieve the required market capitalization for listing. We believe the companies affected by the proposed increase in minimum market capitalization will be those with an annual profit level between HK$30 million to HK$50 million. In traditional industries such as property construction and manufacturing, applicants may not be able to attain such a high level of profit or P/E ratio and thus meet the proposed minimum market capitalization requirement.

With current uncertainty, especially in the P/E multiples of listing applicants, listing applicants may decide to withdraw from listing or to list in other exchanges, which is not in the interest of Hong Kong.
IT Trends

**Business intelligence data is getting even more user friendly**

For many organizations, the amount of data they collect has become a major problem. Big data, while revolutionary, has created a glut of information leaving companies trying to figure out how to structure it to generate actionable insights. Business Intelligence is at the core of any kind of long-term business strategy, because it helps make sense of the data. More recent developments have been opening up self-service options that are helping companies navigate copious amounts of data to deliver insights that can create competitive advantage. And many companies are beginning to make structural shifts to the organization in order to centralize their data. While data visualization is by no means new, it has recently become a critical part of presenting data in a user-friendly format.


**What are the key benefits of cloud computing?**

Cloud computing is a growing trend that is used by many people and businesses these days. Cloud computing basically is where computing is based online rather than on your physical computer or server. Some of the key benefits of this technology include:

- Improved accessibility
- Recovery of data
- Automatic updating
- Remote working
- Security of data

http://www.information-age.com/key-benefits-cloud-computing-123468212/

**3 ways the Internet of Things is changing customer relationships**

The Internet of Things continues to have huge implications for both the consumers and producers of today’s technology. Below are 3 ways of this connectivity enhances product and process innovation.

- Insight to speed innovation – The IoT equips manufacturers with data about product use patterns, which informs and speeds updates and improvements.
- Insight to maximize revenue – The IoT also presents new opportunities for cross-sell and up-sell.
- Customer intelligence is leading digital transformation – Customer intelligence has to incorporate techniques that can derive insights from unstructured and semi-structured data.

https://www.information-management.com/opinion/3-ways-the-internet-of-things-is-changing-customer-relationships
Cybersecurity News

Protect against the fastest-growing crime: cyber attacks

Cyber theft cost the global economy more than $450 billion in 2016, with more than 2 billion personal records stolen. By 2021, cyber crime damage costs could hit $6 trillion annually, according to a report by Cybersecurity Ventures. Financial advisors are increasingly aware of this threat, with 81 percent saying cybersecurity is a high priority. Yet, just 29 percent say they are “fully prepared to manage and mitigate the risks associated with cybersecurity.” Educating both advisors and clients about the risks and methods that attackers are using is one of the most effective ways to prevent a breach.


Hackers spreading multi-platform virus via Facebook Messenger

Hackers are getting wise and they know the world is becoming increasingly multi-platform. Hackers also realize people are using social media like never before and social media habits tend to be the same across platforms. Facebook is by far the most popular social media service and this is where the latest multi-platform virus can be found. The campaign uses Facebook Messenger to deliver a video link that redirects the user to a fake website that contains another link to the malicious software.


Valuations News

Fed to shrink assets next month, boost rates by year end


OUR VIEWS...

“...There may be an accounting impact, e.g. asset impairments, due to an unexpected response to the change in the financial market. This change has already been marked in the diary of the US Fed after their regular meeting in September 2017, at which the Fed set October as the starting point to shrink its $4.5 trillion balance sheet.”
The 7th FinTech Innovation Forum
Hong Kong
18/F, The Mira Hong Kong,
118 Nathan Road, Tsim Sha Tsui

The forum will focus on how technology is shaping financial services and the innovations, strategies and business models currently in vogue.

With over 150 senior finance leaders and executives expected, this event will explore the issues that arise when finance and technology merge.

Key topics to be covered in 2017:

- Regulatory sandbox and interactive development
- Blockchain Infrastructure for Cross-Border Interbank Payments
- IT architecture for open banking
- Fingeneration — The new crystal ball for investment
- Case studies on Stakeholders coordination – with angel investors, fund managers, corporate mentors and fintech enthusiasts
- Failure Case Analysis
- Agility and flexibility in understanding the evolving demands from BFSI industry
- Emerging segments: RegTech, InsurTech, Commutech and Lawtech
- Attracting millennials to fintech workforce
- IoT and cybersecurity
- Industry convergence and Evolution of new business opportunities

To find out more what RSM Consulting (Hong Kong) Limited can offer:

**RISK ADVISORY**

- Pre-IPO review of internal control systems
- Internal control review (listed & unlisted companies)
- Internal audit (out-sourcing & co-sourcing)
- Corporate governance
- Sarbanes-Oxley compliance and related services
- IT risk assurance and consulting

**TRANSACTION ADVISORY**

- Transaction support
- Financial advisory
- Valuation advisory

**TECHNOLOGY AND MANAGEMENT CONSULTING**

- Management consulting
  - IT strategy review
  - Rapid assessment
  - Software selection
  - Project management
- Technology consulting
  - System implementation
  - Cloud portfolio
  - Managed IT services
  - Business intelligence
- IT assurance
  - IT due diligence
  - Cybersecurity review
  - Penetration testing
  - IT audit

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