



香港工業總會
Federation of Hong Kong Industries

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Our Ref.: PRCD/2023/015

6 November 2023

The Honourable Mrs Laura Cha Shih May-lung, GBM, GBS, JP
Chairman
Hong Kong Exchanges and Clearing Limited

Dear Mrs Cha,

Re: Consultation on GEM Listing Reforms

We refer to your Consultation Paper on GEM Listing Reforms published on 26 September 2023.

Further to our discussions with relevant professional parties and, also, taking into account, in particular, the manufacturing needs and nature of our members, we submit the attached paper covering our views on various aspects of the reform proposals outlined in the Consultation Paper.

With a membership base of over 2,000, predominantly comprising small and medium-sized enterprises (SMEs), we are eager to contribute our perspectives and insights in any future consultations regarding GEM or any other fund raising platforms or ideas and suggestions benefitting our SMEs. Your consideration of our views would be greatly appreciated.

If you have any questions on our submission, please directly contact our

Yours sincerely,

[Redacted Signature]
[Redacted Name]
[Redacted Title]
Federation of Hong Kong Industries

Encl.



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Appendix 1

FHKI Submission on GEM Listing Reforms

GEM has been positioned as a market designed to accommodate small and mid-sized enterprises (SMEs) that may carry a higher investment risk compared to other companies listed on the Main Board of Stock Exchange. As stated in the GEM Listing Reforms Consultation Paper (Consultation Paper), there has been a significant decline in new listings and funds raised on GEM since 2019. Furthermore, with the impact of the COVID-19 pandemic and the launch of the Beijing Stock Exchange as a market specifically catering to “innovative SMEs” starting from 2021, there is an urgent need to reposition the GEM board in Hong Kong.

Balancing Regulation and Development with Market Situations

2 It is fully supported that finding the right balance between regulation and the development of the financial market is crucial for fostering a healthy and vibrant market ecosystem. While it is necessary to have regulations to protect investors, maintain market integrity, and prevent misconduct, it is equally important to avoid excessive regulation that hampers innovation and impedes market growth. This balance should be adapted and tailored to proven market situations. As the Chinese proverb goes, “When the water is crystal clear, there will be no fish.” With the frenzy of “shell stocks” already passed, imposing strict regulations on the market would be of no benefit in terms of increasing market liquidity.

3 FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

4 In light of this understanding, FHKI fully supports the following proposals to relax the compliance requirements and continuing obligations for a GEM issuer and align them with those of a Main Board issuer:

- 4.1 Reduce the post-IPO 24 month lock-up period imposed on controlling shareholders of GEM issuers to 12 months (para. 76, Consultation Paper);
- 4.2 Remove the existing requirement for one of the executive directors of a GEM issuer to assume responsibility for acting as the issuer's compliance officer (para. 85(a), Consultation Paper);



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- 4.3 Shorten the period of engagement of the compliance adviser of a GEM issuer so that it ends on the date on which the issuer publishes its financial results for the first full financial year commencing after the date of its initial listing (para. 85(b), Consultation Paper);
- 4.4 Remove GEM requirements relating to a compliance adviser's responsibility with regards to (a) due diligence on listing documents published, and dealing with the HKEX, in relation to certain transactions during the period of engagement of the compliance adviser; and (b) disclosure of interests of the compliance adviser for this purpose (para. 86, Consultation Paper);
- 4.5 Remove quarterly financial reporting as a mandatory requirement for GEM issuers and instead introduce it as a recommended best practice in GEM's Corporate Governance Code (para. 92-93, Consultation Paper);
- 4.6 Align the timeframes for GEM issuers to publish their annual reports, interim reports and preliminary announcement of results for the first half of each financial year with those for the Main Board (para. 94-95, Consultation Paper);
- 4.7 Exempt GEM transferees to the Main Board from the Main Board initial listing fee (para. 139, Consultation Paper).

5 To promote market activities and alleviate regulatory burdens, FHKI considers the introduction of an **alternative financial eligibility test** for high-growth enterprises focused on R&D activities (paras. 63-75), and a **streamlined transfer mechanism** for qualified GEM issuers to transfer their listings to the Main Board (paras. 105-133) a positive step. However, we believe that the thresholds proposed under these measures are excessively high for SMEs in Hong Kong, which contradicts the original purpose of GEM.

High Thresholds for SMEs

6 Being the second board of HKEX, GEM has a fundamental objective of serving as a fundraising platform for growth-oriented companies, particularly SMEs, which demonstrate high growth potential and robust innovation. Supporting the development of SMEs holds great significance for our Government as well. After all, the 362,000 SMEs in Hong Kong form the backbone of our business community, accounting for 98.5% of our city's business units and contributing to approximately 45% of private sector employment. However, despite the Consultation Paper's assertion that promoting and facilitating SME listings remains a top priority for HKEX, the proposed initiatives outlined in the paper with their excessively high thresholds appear to deviate from this objective.



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7 **Alternative financial eligibility test:** Based on our consultation with FHKI members, the majority of SMEs have expressed concerns regarding the proposed eligibility requirements. In particular, they are disheartened by the excessively high threshold set for the “market capitalisation/revenue/R&D” test, which mandates a HK\$250 million market capitalisation and a minimum of HK\$30 million in aggregate R&D expenditure over the past two financial years, with year-on-year growth. These stringent requirements have led member companies to consider aiming for a Main Board listing instead, which only necessitates a market capitalisation that is twice as high, at HK\$500 million.

8 The high threshold and listing costs may also contribute to the resurgence of “shell activities”. In recent years, the market has displayed lackluster performance, characterized by low trading volumes and persistent low stock prices. Companies contemplating going public may consider utilizing the “shell listing” approach to mitigate the associated listing costs. This is a concern that both HKEX and regulatory authorities should be mindful of and address.

9 **Streamlined transfer mechanism:** Similarly, the proposed transfer mechanism to the Main Board raises concerns among SMEs due to the minimum daily turnover threshold on at least 50% of the trading days over a prescribed reference period of 250 trading days before the transfer application and until the commencement of dealings on the Main Board. The impact of such a requirement is clearly illustrated in HKEX's own analysis of the test's effects on its issuers (para. 121, Consultation Paper). The analysis reveals that, under the proposed threshold of HK\$100,000, 50% of eligible GEM issuers (those capable of meeting the Main Board listing requirements as of August 31, 2023) and 35% of GEM transfers (issuers who successfully transferred to the Main Board between January 1, 2018, and August 31, 2023) would have failed the transfer criteria. Even with a lower threshold of HK\$50,000, 17% of eligible GEM issuers and 21% of GEM transfers would have been unsuccessful.

10 Moreover, utilising daily turnover as a requirement for the streamlined transfer mechanism might also prompt companies looking to list through this pathway to become “market makers”. However, given the absence of a stock market-making mechanism in Hong Kong, such companies may easily stumble into legal pitfalls. HKEX must approach the implications of this requirement with caution.

Streamlined Transfer Mechanism for All

11 More importantly, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies. However, once again, this approach fails to effectively support SMEs seeking to list on GEM with the aspiration of transitioning to the Main Board in the future.



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12 We strongly believe it is crucial for HKEX to take all GEM issuers into account when proposing measures to reduce transfer costs and streamline the transfer mechanism, instead of solely facilitating the top tiers. Since the listing requirements of the Main Board already ensure the scrutiny of the scale and qualities of transfer companies, measures to reduce the cost of transfer should not be used as a means to pick the winners, but should benefit all players.

13 To incentivise innovative enterprises seeking to list on GEM, it is imperative for HKEX to clearly communicate that GEM will once again serve as a stepping stone to the Main Board. Such a function came under scrutiny when the streamlined transfer mechanism was considered no longer available under the 2017 GEM Consultations. However, it is strongly believed that such a reinstatement is vital to allow for upward mobility from GEM to the Main Board providing additional financing and investment opportunities benefitting our financial community, in particular, our SMEs.

Reviewing the Listing Requirements for SMEs

14 In comparison to SMEs in the Mainland and other developed overseas markets, SMEs in Hong Kong are relatively small in terms of size, market capitalization, and revenue. In Hong Kong, SMEs are defined as manufacturing enterprises employing fewer than 100 individuals, or non-manufacturing enterprises employing fewer than 50 individuals. By contrast, in the Mainland, for instance, in the case of manufacturing enterprises, SMEs can employ up to 1,000 individuals, which is ten times the threshold defined in Hong Kong.

15 However, small market capitalisation does not necessarily indicate poor quality. There are numerous SMEs in Hong Kong that operate exceptionally well, whether they are focused on innovative technology or operate in more traditional industries. For example, an SME with promising prospects and a net profit of HKD5 million will still not meet the listing requirements of GEM even if it is valued at a price-to-earnings ratio of 20 times. HKEX should review the existing listing requirements and listing costs for GEM to provide capital-raising opportunities for such SMEs at their critical stage when funds are needed. At the same time, this would enable investors to invest in these companies at their most promising stage.

16 It is worth noting that the current eligibility requirement of HKD150 million in expected market capitalization for the GEM board was increased from HKD100 million after the 2017 GEM consultation, which occurred during a period of robust market activity. After the introduction of the new measures in 2018, the number of newly listed companies drastically decreased from 75 in 2018 to 15 in 2019, even before the impact of the COVID-19 pandemic came into effect. Given the significant changes in market conditions since then, it is reasonable to conduct a review based on the current circumstances.

17 It is imperative for HKEX to consider and fully align with the underlying principle



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of GEM, which aims to provide financing opportunities for high-potential, growing companies. To bolster this objective, the HKEX must rely on a strategic approach that involves the reduction of regulatory requirements and listing costs, which the proposed reforms have already started addressing. Additionally, it is crucial to reassess the role of GEM and conduct a thorough review of the listing requirements, with a specific focus on the funding needs of local SMEs. This approach could also foster a clearer differentiation between GEM and the Main Board so that GEM can serve effectively as a springboard for high-potential listings.

FHKI Secretariat
November 2023



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Appendix 2

FHKI Responses to Consultation Paper Questions

(Question 1)

Do you agree that an alternative eligibility test should be introduced to enable the listing of high-growth enterprises substantively engaged in R&D activities on GEM?

(Answer to Question 1)

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

To promote market activities and alleviate regulatory burdens, FHKI considers the introduction of an **alternative financial eligibility test** for high-growth enterprises focused on R&D activities (paras. 63-75), and a **streamlined transfer mechanism** for qualified GEM issuers to transfer their listings to the Main Board (paras. 105-133) a positive step. However, we believe that the thresholds proposed under these measures are excessively high for SMEs in Hong Kong, which contradicts the original purpose of GEM.

(Question 2)

If your answer to Question 1 is “Yes”, do you have any comments on the proposed thresholds for the alternative eligibility test as set out in paragraphs 63 to 75 of the Consultation Paper? Please give reasons for your views.

(Answer to Question 2)

Based on our consultation with FHKI members, the majority of SMEs have expressed concerns regarding the proposed eligibility requirements. In particular, they are disheartened by the excessively high threshold set for the “market capitalisation/revenue/R&D” test, which mandates a HK\$250 million market capitalisation and a minimum of HK\$30 million in aggregate R&D expenditure over the past two financial years, with year-on-year growth. These stringent requirements have led member companies to consider aiming for a Main Board listing instead, which only necessitates a market capitalisation that is twice as high, at HK\$500 million.

The high threshold and listing costs may also contribute to the resurgence of “shell activities”. In recent years, the market has displayed lackluster performance, characterized by low trading volumes and persistent low stock prices. Companies contemplating going public may consider utilizing the “shell listing” approach to



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mitigate the associated listing costs. This is a concern that both HKEX and regulatory authorities should be mindful of and address.

(Question 3)

Do you agree with the proposal to reduce the post-IPO 24 month lock-up period imposed on controlling shareholders of GEM issuers to 12 months as set out in paragraph 76 of the Consultation Paper? Please give reason for your views.

(Answer to Question 3)

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports this proposal.

(Question 4)

Should any other existing eligibility requirement for a listing on GEM be amended?

(Answer to Question 4)

Yes. HKEX should review the existing listing requirements and listing costs for GEM to provide capital-raising opportunities for such SMEs at their critical stage when funds are needed. At the same time, this would enable investors to invest in these companies at their most promising stage.

In comparison to SMEs in the Mainland and other developed overseas markets, SMEs in Hong Kong are relatively small in terms of size, market capitalization, and revenue. In Hong Kong, SMEs are defined as manufacturing enterprises employing fewer than 100 individuals, or non-manufacturing enterprises employing fewer than 50 individuals. By contrast, in the Mainland, for instance, in the case of manufacturing enterprises, SMEs can employ up to 1,000 individuals, which is ten times the threshold defined in Hong Kong.

However, small market capitalization does not necessarily indicate poor quality. There are numerous SMEs in Hong Kong that operate exceptionally well, whether they are focused on innovative technology or operate in more traditional industries. For example, an SME with promising prospects and a net profit of HKD5 million will still not meet the listing requirements of GEM even if it is valued at a price-to-earnings ratio of 20 times.



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It is worth noting that the current eligibility requirement of HKD150 million in expected market capitalization for the GEM board was increased from HKD100 million after the 2017 GEM consultation, which occurred during a period of robust market activity. After the introduction of the new measures in 2018, the number of newly listed companies drastically decreased from 75 in 2018 to 15 in 2019, even before the impact of the COVID-19 pandemic came into effect. Given the significant changes in market conditions since then, it is reasonable to conduct a review based on the current circumstances.

(Question 5)

HKEX should review the existing listing requirements and listing costs for GEM to provide capital-raising opportunities for such SMEs at their critical stage when funds are needed. At the same time, this would enable investors to invest in these companies at their most promising stage.

(Question 6)

Do you agree with the Exchange's proposal to remove GEM's compliance officer requirement as set out in paragraph 85(a) of the Consultation Paper?

(Question 7)

Do you agree with the Exchange's proposal to shorten the period of engagement of GEM issuers' compliance advisers and to remove the additional obligations currently imposed on a GEM issuer's compliance adviser as set out in paragraphs 85(b) and 86 of the Consultation Paper?

(Question 9)

Do you agree with the Exchange's proposal to remove quarterly financial reporting as a mandatory requirement for GEM issuers and instead introduce it as a recommended best practice in GEM's Corporate Governance Code?

(Question 10)

Do you agree with the Exchange's proposal to align the timeframes for GEM issuers to publish their annual reports, interim reports and preliminary announcements of results for the first half of each financial year with those for the Main Board, as set out in paragraphs 94 and 95 of the Consultation Paper?

(Answer to Questions 5, 6, 7, 9, 10)

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when "shell stocks" were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.



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In light of this understanding, FHKI fully supports the above proposals.

(Question 8)

Should any other continuing obligation currently applicable to a GEM listed issuer also be removed?

If so, please state the requirement(s) and give reasons for your views.

(Answer to Question 8)

We do not have a specific stance on this question, but we do support any measures that aim to reduce the costs of fulfilling ongoing obligations without compromising the market integrity of GEM.

(Question 11)

Do you agree that a streamlined mechanism should be introduced to enable qualified GEM issuers to transfer their listing to the Main Board?

(Answer to Question 11)

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

To promote market activities and alleviate regulatory burdens, FHKI considers the introduction of an **alternative financial eligibility test** for high-growth enterprises focused on R&D activities (paras. 63-75), and a **streamlined transfer mechanism** for qualified GEM issuers to transfer their listings to the Main Board (paras. 105-133) a positive step. However, we believe that the thresholds proposed under these measures are excessively high for SMEs in Hong Kong, which contradicts the original purpose of GEM.

More importantly, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies. However, once again, this approach fails to effectively support SMEs seeking to list on GEM with the aspiration of transitioning to the Main Board in the future.

We strongly believe it is crucial for HKEX to take all GEM issuers into account when proposing measures to reduce transfer costs and streamline the transfer mechanism, instead of solely facilitating the top tiers. Since the listing requirements of the Main Board already ensure the scrutiny of the scale and qualities of transfer companies,



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measures to reduce the cost of transfer should not be used as a means to pick the winners, but should benefit all players.

To incentivise prospectus innovative enterprises to list on GEM, it is imperative for HKEX to clearly communicate that GEM will once again serve as a stepping stone to the Main Board. This role came under scrutiny when the streamlined transfer mechanism was canceled during the 2017 GEM Consultations. Such a re-evaluation is vital to develop an updated streamlined mechanism that benefits all GEM stakeholders, with a particular focus on SMEs.

(Question 12)

If your answer to Question 11 is “Yes”, do you agree with the removal of the requirement for the appointment of a sponsor for the purpose of a streamlined transfer as set out in paragraph 108 of the Consultation Paper?

(Question 13)

If your answer to Question 11 is “Yes”, do you agree with, for the purpose of a streamlined transfer, the removal of the requirements for a “prospectus-standard” listing document and other requirements as set out in paragraphs 111 to 114 of the Consultation Paper?

(Answer to Question 12 and 13)

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI in principle agrees to proposed measures that lower the cost of transfer to the Main Board.

However, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies.

We strongly believe it is crucial for HKEX to take all GEM issuers into account when proposing measures to reduce transfer costs and streamline the transfer mechanism, instead of solely facilitating the top tiers. Since the listing requirements of the Main Board already ensure the scrutiny of the scale and qualities of transfer companies, measures to reduce the cost of transfer should not be used as a means to pick the winners, but should benefit all players.



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(Question 14)

If your answer to Question 11 is “Yes”, do you agree with the track record requirements for a streamlined transfer applicant as set out in paragraphs 117 to 118 of the Consultation Paper?

(Answer to Question 14)

Yes, we concur that the track record requirements, without significantly increasing the cost of transfer to the Main Board, will help substantiate the rationale for the removal of the sponsor due diligence and “prospectus-standard” listing document for a streamlined transfer. Additionally, by insisting on the demonstration of ownership continuity and control, as well as ensuring no fundamental changes in the principal business during the specified period, this requirement serves as a vital safeguard against the misuse of streamlined transfers by entities involved in “shell activities”.

(Question 15)

If your answer to Question 11 is “Yes”, do you agree with the daily turnover and volume weighted average market capitalisation requirements for a streamlined transfer applicant as set out in paragraphs 120 to 133 of the Consultation Paper?

(Answer to Question 15)

No. The proposed transfer mechanism to the Main Board raises concerns among SMEs due to the minimum daily turnover threshold on at least 50% of the trading days over a prescribed reference period of 250 trading days before the transfer application and until the commencement of dealings on the Main Board. The impact of such a requirement is clearly illustrated in HKEX’s own analysis of the test’s effects on its issuers (para 121, Consultation Paper). The analysis reveals that, under the proposed threshold of HK\$100,000, 50% of eligible GEM issuers (those capable of meeting the Main Board listing requirements as of August 31, 2023) and 35% of GEM transfers (issuers who successfully transferred to the Main Board between January 1, 2018, and August 31, 2023) would have failed the transfer criteria. Even with a lower threshold of HK\$50,000, 17% of eligible GEM issuers and 21% of GEM transfers would have been unsuccessful.

Moreover, utilising daily turnover as a requirement for the streamlined transfer mechanism might also prompt companies looking to list through this pathway to become “market makers”. However, given the absence of a stock market-making mechanism in Hong Kong, such companies may easily stumble into legal pitfalls. HKEX must approach the implications of this requirement with caution.

More importantly, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies. However, once again, this approach fails to effectively support SMEs seeking to list on GEM with the aspiration of transitioning to the Main Board in the future.



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To incentivise prospectus innovative enterprises to list on GEM, it is imperative for HKEX to clearly communicate that GEM will once again serve as a stepping stone to the Main Board. This role came under scrutiny when the streamlined transfer mechanism was canceled during the 2017 GEM Consultations. Such a re-evaluation is vital to develop an updated streamlined mechanism that benefits all GEM stakeholders, with a particular focus on SMEs.

(Question 16)

If your answer to Question 15 is “Yes”, should the Minimum Daily Turnover Threshold for the Daily Turnover Test be set at (a) HK\$100,000; or (b) HK\$50,000, or (c) another figure (please specify)? Please give reasons for your views.

(Answer to Question 16)

We do not have a specific position on this matter as we are not in agreement with the suggested Minimum Daily Turnover Threshold.

(Question 17)

If your answer to Question 11 is “Yes”, do you agree with the proposed compliance record requirement for a streamlined transfer applicant as set out in paragraph 134 of the Consultation Paper? Please give reasons for your views.

Yes. The proposed amendment is crucial in mitigating the risk of any disciplinary action or serious breach of the Listing Rules being discovered against the applicant after their transfer to the Main Board.

(Question 18)

Do you agree with the proposed modification to the existing compliance record requirement for a transfer from GEM to the Main Board as set out in paragraph 136 of the Consultation Paper? Please give reasons for your views.

(Answer to Question 18)

Yes. The proposed amendment is crucial in mitigating the risk of any disciplinary action or serious breach of the Listing Rules being discovered against the applicant after their transfer to the Main Board.

(Question 19)

Do you agree that the Exchange should exempt GEM transferees to the Main Board from the Main Board initial listing fee?



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(Answer to Question 19)

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports this proposal.

Submitted via Qualtrics

**Federation of Hong Kong Industries
Company/Organisation view
Professional Body / Industry Association**

Question 1

Do you agree that an alternative eligibility test should be introduced to enable the listing of high growth enterprises substantively engaged in R&D activities on GEM?

Yes

Please give reasons for your views.

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

To promote market activities and alleviate regulatory burdens, FHKI considers the introduction of an alternative financial eligibility test for high-growth enterprises focused on R&D activities (paras. 63-75), and a streamlined transfer mechanism for qualified GEM issuers to transfer their listings to the Main Board (paras. 105-133) a positive step. However, we believe that the thresholds proposed under these measures are excessively high for SMEs in Hong Kong, which contradicts the original purpose of GEM.

Question 2

Do you have any comments on the proposed thresholds for the alternative eligibility test as set out in paragraphs 63 to 75 of the Consultation Paper?

Yes

Please give reasons for your views.

Based on our consultation with FHKI members, the majority of SMEs have expressed concerns regarding the proposed eligibility requirements. In particular, they are disheartened by the excessively high threshold set for the “market capitalisation/revenue/R&D” test, which mandates a HK\$250 million market capitalisation and a minimum of HK\$30 million in aggregate R&D expenditure over the past two financial years, with year-on-year growth. These stringent requirements have led member companies to consider aiming for a Main Board listing instead, which only necessitates a market capitalisation that is twice as high, at HK\$500 million.

The high threshold and listing costs may also contribute to the resurgence of “shell activities”. In recent years, the market has displayed lackluster performance, characterized by low trading volumes and persistent low stock prices. Companies contemplating going public may consider utilizing the "shell listing" approach to mitigate the associated listing costs. This is a concern that both HKEX and regulatory authorities should be mindful of and address.

Question 3

Do you agree with the proposal to reduce the post-IPO 24 month lock-up period imposed on controlling shareholders of GEM issuers to 12 months as set out in paragraph 76 of the Consultation Paper?

Yes

Please give reasons for your views.

FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports this proposal.

Question 4

Should any other existing eligibility requirement for a listing on GEM be amended?

Yes

If so, please state the requirement(s) that should be amended and give reasons for your views.

HKEX should review the existing listing requirements and listing costs for GEM to provide capital-raising opportunities for such SMEs at their critical stage when funds are needed. At the same time, this would enable investors to invest in these companies at their most promising stage.

In comparison to SMEs in the Mainland and other developed overseas markets, SMEs in Hong Kong are relatively small in terms of size, market capitalization, and revenue. In Hong Kong,

SMEs are defined as manufacturing enterprises employing fewer than 100 individuals, or non-manufacturing enterprises employing fewer than 50 individuals. By contrast, in the Mainland, for instance, in the case of manufacturing enterprises, SMEs can employ up to 1,000 individuals, which is ten times the threshold defined in Hong Kong.

However, small market capitalization does not necessarily indicate poor quality. There are numerous SMEs in Hong Kong that operate exceptionally well, whether they are focused on innovative technology or operate in more traditional industries. For example, an SME with promising prospects and a net profit of HKD5 million will still not meet the listing requirements of GEM even if it is valued at a price-to-earnings ratio of 20 times.

It is worth noting that the current eligibility requirement of HKD150 million in expected market capitalization for the GEM board was increased from HKD100 million after the 2017 GEM consultation, which occurred during a period of robust market activity. After the introduction of the new measures in 2018, the number of newly listed companies drastically decreased from 75 in 2018 to 15 in 2019, even before the impact of the COVID-19 pandemic came into effect. Given the significant changes in market conditions since then, it is reasonable to conduct a review based on the current circumstances.

HKEX should review the existing listing requirements and listing costs for GEM to provide capital-raising opportunities for such SMEs at their critical stage when funds are needed. At the same time, this would enable investors to invest in these companies at their most promising stage.

Question 5

Do you agree with the proposed consequential and housekeeping amendments to the reverse takeover and extreme transaction Rules as set out in paragraphs 81 and 82 of the Consultation Paper?

Please give reasons for your views.

We do not have a specific stance on this question.

Question 6

Do you agree with the Exchange's proposal to remove GEM's compliance officer requirement as set out in paragraph 85(a) of the Consultation Paper?

Yes

Please give reasons for your views.

FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports the above proposal.

Question 7

Do you agree with the Exchange’s proposal to shorten the period of engagement of GEM issuers’ compliance advisers and to remove the additional obligations currently imposed on a GEM issuer’s compliance adviser as set out in paragraphs 85(b) and 86 of the Consultation Paper?

Yes

Please give reasons for your views.

FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports the above proposal.

Question 8

Should any other continuing obligation currently applicable to a GEM listed issuer also be removed?

If so, please state the requirement(s) and give reasons for your views.

We do not have a specific stance on this question, but we do support any measures that aim to reduce the costs of fulfilling ongoing obligations without compromising the market integrity of

GEM.

Question 9

Do you agree with the Exchange's proposal to remove quarterly financial reporting as a mandatory requirement for GEM issuers and instead introduce it as a recommended best practice in GEM's Corporate Governance Code?

Yes

Please give reasons for your views.

FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when "shell stocks" were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports the above proposal.

Question 10

Do you agree with the Exchange's proposal to align the timeframes for GEM issuers to publish their annual reports, interim reports and preliminary announcements of results for the first half of each financial year with those for the Main Board, as set out in paragraphs 94 and 95 of the Consultation Paper?

Yes

Please give reasons for your views.

FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when "shell stocks" were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports the above proposal.

Question 11

Do you agree that a streamlined mechanism should be introduced to enable qualified GEM issuers to transfer their listing to the Main Board?

Yes

Please give reasons for your views.

FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

To promote market activities and alleviate regulatory burdens, FHKI considers the introduction of an alternative financial eligibility test for high-growth enterprises focused on R&D activities (paras. 63-75), and a streamlined transfer mechanism for qualified GEM issuers to transfer their listings to the Main Board (paras. 105-133) a positive step. However, we believe that the thresholds proposed under these measures are excessively high for SMEs in Hong Kong, which contradicts the original purpose of GEM.

More importantly, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies. However, once again, this approach fails to effectively support SMEs seeking to list on GEM with the aspiration of transitioning to the Main Board in the future.

We strongly believe it is crucial for HKEX to take all GEM issuers into account when proposing measures to reduce transfer costs and streamline the transfer mechanism, instead of solely facilitating the top tiers. Since the listing requirements of the Main Board already ensure the scrutiny of the scale and qualities of transfer companies, measures to reduce the cost of transfer should not be used as a means to pick the winners, but should benefit all players.

To incentivise prospectus innovative enterprises to list on GEM, it is imperative for HKEX to clearly communicate that GEM will once again serve as a stepping stone to the Main Board. This role came under scrutiny when the streamlined transfer mechanism was canceled during the 2017 GEM Consultations. Such a re-evaluation is vital to develop an updated streamlined mechanism that benefits all GEM stakeholders, with a particular focus on SMEs.

Question 12

Do you agree with the removal of the requirement for the appointment of a sponsor for the purpose of a streamlined transfer as set out in paragraph 108 of the Consultation Paper?

Yes

Please give reasons for your views.

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI in principle agrees to proposed measures that lower the cost of transfer to the Main Board.

However, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies.

We strongly believe it is crucial for HKEX to take all GEM issuers into account when proposing measures to reduce transfer costs and streamline the transfer mechanism, instead of solely facilitating the top tiers. Since the listing requirements of the Main Board already ensure the scrutiny of the scale and qualities of transfer companies, measures to reduce the cost of transfer should not be used as a means to pick the winners, but should benefit all players.

Question 13

Do you agree with, for the purpose of a streamlined transfer, the removal of the requirement for a “prospectus-standard” listing document and other requirements as set out in paragraphs 111 to 114 of the Consultation Paper?

Yes

Please give reasons for your views.

Yes. FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI in principle agrees to proposed measures that lower the cost of transfer to the Main Board.

However, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies.

We strongly believe it is crucial for HKEX to take all GEM issuers into account when proposing measures to reduce transfer costs and streamline the transfer mechanism, instead of solely facilitating the top tiers. Since the listing requirements of the Main Board already ensure the scrutiny of the scale and qualities of transfer companies, measures to reduce the cost of transfer should not be used as a means to pick the winners, but should benefit all players.

Question 14

Do you agree with the track record requirements for a streamlined transfer applicant as set out in paragraphs 117 to 118 of the Consultation Paper?

Yes

Please give reasons for your views.

We concur that the track record requirements, without significantly increasing the cost of transfer to the Main Board, will help substantiate the rationale for the removal of the sponsor due diligence and "prospectus-standard" listing document for a streamlined transfer. Additionally, by insisting on the demonstration of ownership continuity and control, as well as ensuring no fundamental changes in the principal business during the specified period, this requirement serves as a vital safeguard against the misuse of streamlined transfers by entities involved in "shell activities".

Question 15

Do you agree with the daily turnover and volume weighted average market capitalisation requirements for a streamlined transfer applicant as set out in paragraphs 120 to 133 of the Consultation Paper?

No

Please give reasons for your views.

The proposed transfer mechanism to the Main Board raises concerns among SMEs due to the minimum daily turnover threshold on at least 50% of the trading days over a prescribed reference period of 250 trading days before the transfer application and until the commencement of dealings on the Main Board. The impact of such a requirement is clearly

illustrated in HKEX's own analysis of the test's effects on its issuers (para 121, Consultation Paper). The analysis reveals that, under the proposed threshold of HK\$100,000, 50% of eligible GEM issuers (those capable of meeting the Main Board listing requirements as of August 31, 2023) and 35% of GEM transfers (issuers who successfully transferred to the Main Board between January 1, 2018, and August 31, 2023) would have failed the transfer criteria. Even with a lower threshold of HK\$50,000, 17% of eligible GEM issuers and 21% of GEM transfers would have been unsuccessful.

Moreover, utilising daily turnover as a requirement for the streamlined transfer mechanism might also prompt companies looking to list through this pathway to become “market makers”. However, given the absence of a stock market-making mechanism in Hong Kong, such companies may easily stumble into legal pitfalls. HKEX must approach the implications of this requirement with caution.

More importantly, proposing a transfer mechanism that aims to streamline the process and reduce transfer costs, while simultaneously imposing stricter requirements, primarily benefits top-tier eligible companies. However, once again, this approach fails to effectively support SMEs seeking to list on GEM with the aspiration of transitioning to the Main Board in the future.

We strongly believe it is crucial for HKEX to take all GEM issuers into account when proposing measures to reduce transfer costs and streamline the transfer mechanism, instead of solely facilitating the top tiers. Since the listing requirements of the Main Board already ensure the scrutiny of the scale and qualities of transfer companies, measures to reduce the cost of transfer should not be used as a means to pick the winners, but should benefit all players.

To incentivise prospectus innovative enterprises to list on GEM, it is imperative for HKEX to clearly communicate that GEM will once again serve as a stepping stone to the Main Board. This role came under scrutiny when the streamlined transfer mechanism was canceled during the 2017 GEM Consultations. Such a re-evaluation is vital to develop an updated streamlined mechanism that benefits all GEM stakeholders, with a particular focus on SMEs.

Question 16

**Should the Minimum Daily Turnover Threshold for the Daily Turnover Test be set at: -
Selected Choice**

Please give reasons for your views.

Question 17

Do you agree with the proposed compliance record requirement for a streamlined transfer applicant as set out in paragraph 134 of the Consultation Paper?

Yes

Please give reasons for your views.

The proposed amendment is crucial in mitigating the risk of any disciplinary action or serious breach of the Listing Rules being discovered against the applicant after their transfer to the Main Board.

Question 18

Do you agree with the proposed modification to the existing compliance record requirement for a transfer from GEM to the Main Board as set out in paragraph 136 of the Consultation Paper?

Yes

Please give reasons for your views.

The proposed amendment is crucial in mitigating the risk of any disciplinary action or serious breach of the Listing Rules being discovered against the applicant after their transfer to the Main Board.

Question 19

Do you agree that the Exchange should exempt GEM transferees to the Main Board from the Main Board initial listing fee?

Yes

Please give reasons for your views.

FHKI believes that the market must focus more on stimulating activity by reducing unnecessary regulatory burdens. Rather than imposing more regulations or raising requirements, as was done in the 2018 Market Quality Reforms when “shell stocks” were a concern and the market was thriving, it would be more beneficial for the market to focus on reducing listing costs, relaxing eligibility requirements and ongoing obligations. This approach would encourage more SMEs to utilise GEM as a funding avenue, leading to their growth and making a positive contribution to the overall development of Hong Kong's financial market.

In light of this understanding, FHKI fully supports this proposal.