

**Submitted via Qualtrics**

**(Anonymous)**

**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.**

Given the recent decline in GEM listing activity, we are of the view that proposing an alternative eligibility test would promote the attractiveness of GEM, especially for SME with extensive R&D expenditure.

**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.**

However, while we consider that facilitating the listing of R&D companies is worthwhile, inconsistent requirements undermine fairness and effectiveness. We agree R&D expenditure thresholds demonstrate meaningful innovation commitment while using Main Board definitions also enhances consistency. However, GEM differs fundamentally and positions as an SME market accepting higher risks. Imposing elevated standards exclusively on R&D companies seems inequitable without evidence they carry higher risks than other GEM listing applicants. For example, higher market capitalisation for R&D companies may undermines GEM's inclusive role

In addition, based on the proposed market capitalisation/ revenue/ R&D test, a GEM listing applicant would be required to obtain an operating expense of not less than HK\$200 million with HK\$100 million revenue for the latest two financial years. In other word, the financial performance of such listing applicants would be significantly differ than those under the existing eligibility test. Despite the fact that GEM is positioned as a listing platform for SME with higher risks, it remains unclear that whether general investors, who may not equip with relevant knowledge and expertise in analysing companies with extensive R&D expenditure, are confidence in investing in R&D companies given their unique financial performance and growing prospect. Therefore, the proposed eligibility test would not able to revitalise GEM without the support of general investors.

On the other hand, the existing cash flow test can be adjusted to accommodate R&D companies simply and consistently. This avoids setting arbitrary, uneven standards. Sustainability concerns can be addressed through an enhanced working capital requirement rather than general revenue tests.

Overall, adjusting the existing cash flow test to allow R&D add-backs better facilitates these applicants within a fair, consistent framework, upholding innovation and protection.

The Exchange should consider updating its listing tests to better accommodate not just research & development companies, but also other emerging growth businesses. For example, companies with unique business models, such as subscription-based services, may benefit from metrics that highlight their recurring revenue. Similarly, technology-driven companies that focus on user growth before profits could be evaluated based on active user counts. By evolving the GEM framework to meet the needs of these innovative businesses, Hong Kong can enhance its attractiveness as a vibrant hub for various high-growth companies. It is essential to maintain high standards while updating these entry routes to improve competitiveness. As markets change, the rules should adapt to promote fair access and encourage innovation.

### **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.**

We support reducing the post-IPO lock-up period for GEM controlling shareholders from 24 months to 12 months. Given the typically smaller scale and simpler structure of small and medium enterprise (SME) versus Main Board companies, relaxing GEM Listing Rules to align with the Main Board requirements is sensible, especially since "shell activities" are no longer a material concern. A 12-month lock-up would also align GEM with overseas exchanges' junior markets that allow shorter lock-ups like 6 months on NASDAQ.

### **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.**

Considering challenging market conditions, economic factors, and geopolitical issues, we believe the current environment is tougher and more pessimistic relative to 2018 when GEM rules were last reformed. The existing HK\$30 million operating cash inflow test over two financial years seems impractical presently. We suggest lowering the requirement to HK\$20-25 million, closer to the old standard. This would be more feasible in the current climate while still maintaining reasonable safeguards.

In addition, we understand that the market capitalisation requirement is aimed to ensure sufficient investor demand. However, it may inevitably promote an atmosphere of inflating valuation for the sole purpose of fulfilling the market capitalisation requirement. Therefore, we are of the view that the valuation shall be market-driven and the Exchange shall consider relaxing the market capitalisation requirement.

Furthermore, the GEM serves as Hong Kong's designated market for listing and trading SME stocks. Over the years, trading activity on GEM tends to be lower compared to the Main Board.

Cutting the stamp duty specifically for trading GEM-listed stocks could help attract more investors to this market. Increased demand would likely improve valuations and price discovery for younger, high-growth SMEs. Lower trading costs may also boost Hong Kong's reputation as a welcoming environment for emerging companies.

#### **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?**

Yes

**Please give reasons for your views.**

We agree with the proposed amendments to reverse takeover and extreme transaction rules per the Consultation Paper. However, we wish to highlight the challenges these rules pose for GEM issuers seeking growth opportunities. The poor performance of many SMEs on GEM stems partly from inability to expand dynamically, often via acquisitions. Yet reverse takeover and extreme transaction requirements make substantial acquisitions difficult, expensive and time-consuming for GEM issuers.

Therefore, we recommend the Exchange consider amending these rules to allow more flexibility for GEM issuers to pursue strategic acquisitions and business expansion. This would facilitate improved performance and dynamism.

Additionally, we agree that the Exchange should consider waiving management/ownership continuity requirements for all listed issuers, regardless of eligibility test met. Allowing waivers provides consistent flexibility for issuers facing continuity issues.

#### **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.**

We support eliminating the compliance officer role for GEM issuers. Directors already oversee compliance adequately given their expertise and ability to consult advisors. The compliance officer mandate is unnecessary and redundant for GEM issuers with simpler structures. Directors can sufficiently ensure adherence without this extra position.

#### **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.**

GEM and Main Board issuers should be treated equally concerning compliance advisers. Different requirements for the two markets would be inconsistent, since GEM and Main Board are both listed exchange platforms. The same rules should apply to issuers with public status.

#### **Question 8**

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

Yes

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

GEM issuers warrant more flexible shareholder approval requirements for M&A transactions given their much smaller size versus Main Board. Percentage ratio methodology disadvantages GEM firms with low denominators.

Struggling GEM issuers also deserve case-by-case exemptions for mergers and acquisitions to pivot when core business deteriorates and allow them to utilise their expertise in relevant industries. Current protocols suited for sophisticated Main Board disproportionately hinder smaller GEM issuers requiring flexibility to evolve through acquisitions. A more calibrated, principles-based approach would empower GEM issuers amid volatility.

### **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.**

Yes.

The mandatory requirement of quarterly financial reporting was initially introduced under the “buyer beware” philosophy to ensure that informed decisions could be made by the investors given the “high risk” nature of GEM issuers. However, we believe that GEM listed issuers are as well established as Main Board listed issuers with good corporate governance, attributable to the increasingly converged rule requirements. Therefore, we are of the view that the GEM Listing Rules, even without mandatory quarterly reporting requirement, are able to safeguard the interest of investors which allow them to make informed decisions.

### **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.**

We believe GEM issuers should maintain corporate governance and financial reporting standards as Main Board issuers. The preparation process is equivalent for both boards, including identical timelines to obtain audit confirmations. Aligning GEM and Main Board reporting timeframes avoid imposing unnecessary burdens on GEM issuers. The same deadlines should apply given comparable governance practices across the two markets.

### **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.**

The proposed streamlined transfer process for qualified GEM issuers to Main Board is constructive, as it enhances efficiency and incentives for scaling GEM issuers. It would benefit issuers through quicker Main Board access and raise interest from investors in GEM issuers. Eliminating the "prospectus-standard" document also saves costs for GEM transfer applicants.

**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.**

We agree with waiving the sponsor requirement, provided that eligibility for transfer already validates issuers through financial thresholds and track records, mandated sponsor oversight is redundant just for the transfer process.

**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.**

The proposal to remove the full prospectus requirement for qualified GEM transfers is practical, as it avoids duplicating information already disclosed.

GEM issuers follow the same accounting and disclosure standards as the Main Board issuers. This streamlined approach smooths the path for quality GEM issuers to transfer while upholding transparency and standards.

**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 have concerns about the proposed 5 year minimum track record requirement for streamlined transfer applicants.

Requiring 2 years of financial track record for GEM IPO plus 3 additional years after listing extends the timeline compared to the original 2+1 years. This prolonged pathway may discourage quality companies from pursuing a GEM IPO if they must wait so long for Main Board transfer.

The thoroughly vetted 2 year track record for the GEM IPO could continue to be part of the streamlined transfer assessment. Since 2+1 years previously met Main Board requirements, mandating 2+3 years now lacks clear rationale while potentially hindering the reform's viability.

**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?**

Yes

**Please give reasons for your views.**

We agree that requiring minimum daily turnover and average market capitalization can reasonably assess a streamlined transfer applicant's suitability. These metrics indicate investor interest and confidence without needing a sponsor's full due diligence. Higher turnover and trading volume also demonstrate a company's stock attractiveness and liquidity, allowing investors to freely trade shares. Moreover, adequate trading activity signals market acceptance and perceived investment value.

**Question 16**

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

(b) HK\$50,000

**Please give reasons for your views.**

We believe the proposed Minimum Daily Turnover Threshold of HK\$50,000 is reasonable. A high turnover and capitalization would encourage market manipulation so as to artificially inflate trading volumes and market cap during the Reference Period just to meet requirements.

**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.**

We agree with the proposed compliance record requirements. As ongoing investigations indicate suitability concerns, the clean record mandate mitigates disciplinary risks after transfer.

**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.**

Yes.

Please refer to our response to Question 17.

**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.**

We agree with waiving the Main Board initial listing fee for streamlined transfers.

GEM issuers already paid a fee for their initial GEM listing. With highly aligned GEM and Main Board rules now, there is little functional difference between the markets. Imposing another substantial fee would discourage transfers.

Since transfers usually do not involve fundraising, reducing costs through the proposed measures encourages eligible GEM issuers to consider progression. This includes waiving the Main Board fee.



Lower transfer costs also encourage potential applicants to pursue a GEM IPO first rather than waiting to list directly on the Main Board.