

6 November 2023

Hong Kong Exchanges and Clearing Limited  
8th Floor, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

Re: Consultation Paper on GEM Listing Reforms

Subject: Response to *Consultation Paper on GEM Listing Reforms*

Dear Sir/Madam,

Deloitte Touche Tohmatsu is pleased that the Stock Exchange of Hong Kong (the Exchange) published the *Consultation Paper on GEM Listing Reforms* recently in response to substantial ongoing market feedback on the need to revive GEM. We welcome these proposals and believe the reforms could maintain GEM as a viable listing platform for small and medium-sized enterprises in the prevailing economic environment. The reforms, which echo The Chief Executive's 2023 Policy Address, would also help support a vibrant stock market, which is vital to upholding Hong Kong's status as an international financial centre and maintaining its competitiveness.

Taking this opportunity, we would like to put forward some of our views, which we wish to help further enhance the proposed reforms for the overall benefit of Hong Kong's strategic positioning as an international financial centre:

#### *Reduction in the cost of listing*

We agree with the proposals, including removal of the existing compliance officer requirements, shortening the period required to engage a compliance adviser, removal of quarterly reporting requirements, and aligning requirements for the publication of results announcements and annual/interim reports with those of the Main Board, to reduce the cost of listing for existing GEM issuers.

We consider these suggestions to strike a right balance between the cost of listing for GEM issuers and protecting the benefits of individual investors. We also agree that it is GEM issuers' continuing obligation to disclose their inside information promptly to the public to maintain transparency. While we agree with the proposals mentioned above, we would emphasise the importance of relevant and regular directors' training for better corporate governance to protect investors' interests, and therefore would urge the Exchange to consider the requirements for directors' awareness and understanding of their responsibilities.

To help GEM issuers further reduce the cost of compliance, we suggest the Exchange observe closely work by the Hong Kong Institute of Certified Public Accountants, the statutory standard setter for Hong Kong's accounting industry, on the convergence of International Financial Reporting Standards (IFRS), Sustainability Disclosure Standards: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 Climate-related Disclosures. This convergence would streamline the disclosure of sustainability reporting, which is in place to cater for the needs of the investors in GEM issuers.

6 November 2023

Hong Kong Exchanges and Clearing Limited  
Page 2

### *Streamlined transfer mechanism*

We agree with the Exchange that the proposed transfer mechanism could effectively reduce the cost of listing for eligible GEM issuers, which have grown their businesses since their GEM listings, and increase the market's overall attractiveness.

However, paragraph 117 of the Consultation Paper, which states that the Exchange proposes that a streamlined transfer applicant demonstrate a minimum track record of three full financial years as a GEM-listed issuer prior to its transfer (instead of only one full financial year commencing after the date of its initial listing on GEM), might not provide a supportive listing environment for local small and mid-sized enterprises. We suggest the Exchange might reduce the track record requirements for GEM issuers to one full financial year.

The Exchange might like to consider conducting outreach on one of the other requirements: the proposed Minimum Daily Turnover Threshold (HKD100,000 or HKD50,000) on at least 50% of trading days in the 250 trading days immediately preceding a transfer application.

As relatively few existing GEM issuers could meet this requirement (as demonstrated in Tables 2 and 3 of the Consultation Paper) given the current liquidity and turnover of Hong Kong's stock market, the Exchange might consider assessing the need to refine this proposed threshold in a way that would maintain competitiveness compared to other markets.

### *Introduction of new financial eligibility test*

In regard to whether the existing eligibility requirement for listing on GEM needs to be amended, we note that the operating cash flow requirement (HKD30 million of positive cash flows in aggregate for the two financial years immediately preceding issuance of the listing document) is suggested not to be removed or lowered for the reasons stated in paragraphs 24 and 61 of the Consultation Paper. However, we urge the Exchange to revisit this in a more comprehensive way.

The Selected Overseas Junior Markets either have no such requirement (Nasdaq Capital Market, Alternative Investment Market and Catalist), or have a less stringent requirement, such as the Beijing Stock Exchange's (BSE) Listing Standard which requires only a positive cash flow for the most recent year. If this cash flow requirement has been a major impediment to GEM listing, keeping it would mean potential issuers might opt only for the new financial eligibility test, which could render the existing eligibility requirement redundant. Given the various macroeconomic and geopolitical developments in recent years, the Exchange might like to revisit whether the HKD30 million is too high in the current situation.

The market valuations of most Hong Kong issuers have been reduced due to ongoing US interest rate hikes and various macroeconomic and geopolitical developments in the last two years. Against this backdrop, the Exchange might also like to take another look at the market capitalisation threshold of HKD250 million at time of listing, which would be introduced under a proposed "market capitalisation/revenue/R&D" financial eligibility test for high-growth GEM enterprises that are heavily engaged in R&D activities outlined in this Consultation Paper. If the threshold could be lowered, more such businesses would be drawn to list on GEM.

6 November 2023

Hong Kong Exchanges and Clearing Limited  
Page 3

*Further enhancements to GEM's positioning as a fundraising platform for small cap/mid-sized companies*

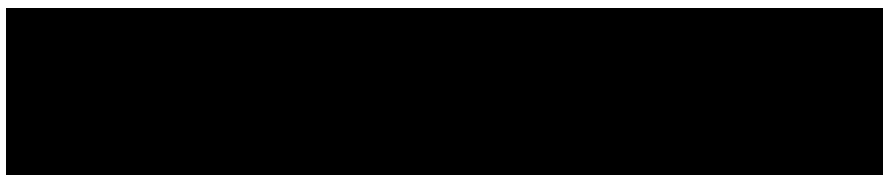
Although GEM has been revamped and repositioned since its establishment in 1999, the lower turnover of GEM stocks mean they remain outside the investment portfolios of many investment funds and institutional investors. To enhance the attractiveness and competitiveness of GEM for these investors and elevate GEM's status, we would like the Exchange to also consider the following suggestions:

- In recent years, following the Chief Executive's 2020 Policy Address, the Hong Kong SAR Government has been dedicated to driving the development of green and sustainable finance in Hong Kong, which aims to achieve carbon neutrality before 2050. GEM could play a role in supporting this initiative, in particular by expanding Hong Kong's ecosystem for green and sustainable finance, through reform that makes fundraising channels available to green technology, green finance and new energy companies. These companies are either in an earlier stage of development or are considered small cap/mid-sized, which matches GEM's positioning as a fundraising platform for such businesses. This would also capitalise on the advantages of Hong Kong as a fundraising platform and facilitate the green construction and development of the Guangdong-Hong Kong-Macao Greater Bay Area to help build Hong Kong as a leading hub for green finance and technology, new energy and sustainable development.
- Earlier this year, Hong Kong Exchanges and Clearing signed a Memorandum of Understanding with the BSE providing cooperation opportunities for the two bourses in the future. On this basis, we would urge the Exchange to consider collaborations between GEM, BSE and the National Equities Exchange and Quotations to create a platform with mutual access for the small cap and mid-sized issuers across all these markets. One option would be an expansion of the Stock Connect programme to cover the three bourses, which would broaden their investor bases and enhance their overall liquidity and turnover.

Once again, we thank the Exchange for making these proposals, giving us such a valuable opportunity to express our views on these potential reforms. We also look forward to seeing the reforms be refined and come into effect soon.

We thank the Exchange for giving market participants such a valuable opportunity to express their views on this potential regime. We also look forward to seeing the new regime come into effect soon.

Yours faithfully,



General Information of the Respondent

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

Company/ Entity view

Company/ Entity name*:	Deloitte Touche Tohmatsu	
Company/ Entity type*:	<input type="checkbox"/> Listed Company	<input type="checkbox"/> HKEX Participant
	<input type="checkbox"/> Investment Management Firm	<input type="checkbox"/> Corporate Finance Firm
	<input type="checkbox"/> Law Firm	<input type="checkbox"/> Accountancy Firm
	<input type="checkbox"/> Professional Body/ Industry Association	
	<input checked="" type="checkbox"/> Others (Type: Professional services firm)	
Contact person*:	[REDACTED]	
Title:	Southern Region Hong Kong Offering Services Leader, Capital Market Services Group, Deloitte China	
Phone no.*:	[REDACTED]	Email address: [REDACTED]

Personal view

Respondent's full name*:	Mr/ Ms/ Mrs _____	
Phone no.*:	_____	Email address: _____
Among the following, please select the one best describing your position*:		
<input type="checkbox"/> Listed Company Staff	<input type="checkbox"/> HKEX Participant Staff	<input type="checkbox"/> Retail Investor
<input type="checkbox"/> Investment Management Staff	<input type="checkbox"/> Corporate Finance Staff	<input type="checkbox"/> Lawyer
<input type="checkbox"/> Accountant	<input type="checkbox"/> Others (Type: _____)	

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

(2) Disclosure of identity

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

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

[REDACTED] [REDACTED]

Signature (with Company/ Entity Chop if response represents company/ entity view)

###