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Hong Kong Exchanges and Clearing Limited
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Dear Sirs

Re. Consultation Paper on GEM Listing Reforms

PricewaterhouseCoopers welcomes the opportunity to respond to the subject consultation. Unless otherwise defined, terms used herein shall have the same meaning as those defined in the consultation paper (the “Paper”).

Given the importance of SMEs to the Hong Kong economy, we welcome the Exchange’s initiative to review GEM to encourage and facilitate the listing of SMEs.

In general, we support the Exchange’s proposals to introduce a new eligibility test for companies in the high-growth segment, streamline the transfer mechanism for transfer from GEM to Main Board, and remove the quarterly reporting requirements and align certain other ongoing obligations of GEM issuers with that of the Main Board issuers. We believe the proposals can help attract more high-growth SMEs to the Exchange, providing them with a fund raising platform for their growth and are beneficial for development of the Hong Kong economy.


New alternative eligibility test

The Paper proposes to introduce an alternative eligibility test “market capitalization/revenue/R&D test” (the “Alternative Test 1”) to enable the listing of high growth enterprises substantially engaged in R&D activities on GEM. While we support this proposal, we recommend the Exchange to consider introducing an additional alternative eligibility test “market capitalization/ R&D test” (the “Alternative Test 2”) for high growth enterprises that are yet to commercialise their products and/or services and thus do not have a track record of revenue. For this test, the Exchange can consider setting a higher market capitalization of HK\$1.5 billion to mitigate the risk of the absence of track record of revenue. With these two alternative tests, GEM will provide a platform for both commercial and pre-commercial high-growth SMEs.



Track record requirement for streamlined transfer applicants

The Paper proposes that a streamlined transfer applicant should have published financial results for three full financial years as a GEM issuer instead of one full financial year under the current regime. We disagree with this proposal as this means the GEM issuer has to have at least a five-year track record (two years before GEM listing and three years as GEM issuers) before applying for listing on Main Board instead of a three-year track record for an issuer who applies for a direct listing on Main Board. We understand this aims to substantiate the rationale for the removal of sponsor due diligence and publication of a “prospectus-standard” listing document for a streamlined transfer. However, given that an issuer listed on GEM has to have a track record of two-year, be subject to sponsor due diligence before listing and has to comply with the GEM ongoing listing requirements (including requirements on periodic financial reporting, notifiable transactions and connected transactions) and have to meet all the qualifications for listing on the Main Board before transfer to the Main Board, we consider the current requirement of one full financial year as a GEM issuer should be adequate to justify the removal of sponsor due diligence and publication of a “prospectus-standard” listing document for the streamlined transfer. Imposing the proposed three year requirement will penalize those issuers that choose to go for listing on GEM first and greatly undermine the attractiveness of GEM. We urge the Exchange not to adopt this proposal.

We hope the above are helpful. If you would like to discuss any matter further, please do not hesitate to contact 

Yours faithfully

