BRIEFINGNOTE

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Consultation paper on GEM listing reforms

Introduction

On 26 September 2023, the Stock Exchange of Hong Kong (the "**Exchange**") published a consultation paper seeking views and comments on GEM listing reforms (the "**Consultation Paper**"). The Exchange is requesting market feedback on the proposed changes during the consultation period, which will conclude on 6 November 2023.

The Consultation Paper aims to address the significant decline in GEM listings since 2019, which the Exchange has attributed to pandemic-related market disruptions and the launch of the Beijing Stock Exchange ("**BSE**") as an alternative SME listing venue.

The Exchange wishes to review GEM's positioning, market perception, and viability as an alternative to the Main Board, as well as address market concerns that GEM is no longer viable as a listing platform for SMEs and traditional companies.

Key proposals

Proposals	Existing requirements	Proposed requirements
I. Initial listing requirements		
Alternative financial eligibility tests	GEM's financial eligibility tests for applicants include the following requirements: • track record period of two years • market capitalisation of at least HK$150 million • positive cash flow from operating activities of at least HK$30 million	Introduce a market capitalisation/revenue/ R&D to target high growth enterprises heavily engaged in R&D, with the following requirements: • track record period of two years • market capitalisation of at least HK$250 million at the time of listing • aggregate revenue of at least HK$100 million, with year-on-year growth; and • aggregate R&D expenditure of at least HK$30 million, being at least 15% of total operating expenditure
Reduction of post-IPO lock-up period for controlling shareholders	A post-IPO 24 month lock-up is imposed on controlling shareholders.	Reduce post-IPO lock-up to 12 months to bring GEM in line with comparable overseas junior markets including the BSE, Nasdaq Capital Market, Catalist (SGX) and AIM (LSE).
II. Transfers to the Main Board		
Streamlined transfer mechanism	To transfer to the Main Board, a GEM transfer applicant must: • meet all qualifications for listing on the Main Board; • have a track record of one full financial year commencing after the date of the initial GEM listing; and • not have been the subject of any disciplinary investigation by the Exchange or a serious breach of the Listing Rules in the 12 months preceding the transfer application and until the transfer to the Main Board.	Introduce a new streamlined transfer mechanism. If a GEM transfer applicant meets all of the following requirements: • meet all qualifications for listing on the Main Board; • have a track record of three full financial years as a GEM issuer prior to its transfer; • daily turnover to reach minimum threshold for at least 50% of trading days over the 250 trading days immediately preceding the transfer application (the "**Reference Period**"); • have a volume weighted average market capitalisation over the Reference Period that meets the minimum market capitalisation

		requirement for listing on the Main Board; and • not have been the subject of any disciplinary investigation by the Exchange or a serious breach of the Listing Rules in the 12 months preceding the transfer application and until the transfer to the Main Board.
	A GEM transfer applicant must also: • appoint a sponsor to conduct due diligence at least two months before the transfer application; and • publish a prospectus-standard listing document.	Under the streamlined transfer mechanism, an eligible GEM transfer applicant is not required to: • appoint a sponsor to conduct due diligence; and • produce a "prospectus-standard" listing document. GEM issuers who are not eligible for the streamlined transfer mechanism could still apply for a transfer to the Main Board under the existing requirements.
Exempt Main Board initial listing fee	GEM transferees have to pay the Main Board initial listing fee.	GEM transferees exempted from Main Board initial listing fees to reduce cost of transfer of listing.
III. Continuing obligations		
Compliance obligations	GEM issuers are subject to more stringent compliance officer and compliance adviser obligations compared to those of the Main Board.	Align GEM's continuing obligations to those of Main Board issuers, including responsibilities of compliance advisers and officers.
Reporting requirements	GEM issuers are required to publish annual, half-year, and quarterly reports.	Remove quarterly reporting requirement to align with Main Board.

Conclusion

The Consultation Paper proposals are a result of feedback on GEM from stakeholders including industry associations, professional bodies, and industry practitioners. While the Exchange acknowledges that the proposals may not address all the concerns of each stakeholder, the proposals should result in reducing the cost of maintaining a GEM listing and the cost of transfer to the Main Board.

With SMEs accounting for more than 98% of businesses in Hong Kong, encouraging and facilitating SME listings continues to be a key priority for the Exchange. Through the proposed GEM reforms, the Exchange aims to strike a balance between facilitating capital raising and protecting the interests of investors with a view to GEM's long-term success.

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