

# Press Release



FOR IMMEDIATE RELEASE

## **HKCMP Urges Comprehensive Reform of the GEM Listing Process in Response to HKEx's Consultation Paper**

**Hong Kong, 6 November, 2023** – The Association of Hong Kong Capital Market Practitioners (HKCMP), comprising seasoned market professionals from Hong Kong's corporate finance, legal and accounting sectors, has submitted a formal response to the recently published GEM Reform Consultation Paper by The Stock Exchange of Hong Kong Limited.

HKCMP's primary mission is to foster a culture of integrity, accountability, and the highest standards of professional conduct and ethics among capital market practitioners, thereby creating opportunities for the next generation of professionals to thrive and excel in the industry.

### ***HKCMP's View on the GEM Reform Consultation Paper***

HKCMP welcomes the long-awaited GEM Reform Consultation Paper (Paper). The Paper introduces three main proposed reforms: an alternative eligibility test, the removal of the mandatory quarterly reporting requirement, and a streamlined transfer mechanism.

Based on feedback and insights from the hands-on experience of its members, HKCMP believes these reforms do not go far enough to address the current challenges faced by stakeholders and market practitioners at large.

Notably, in 2019 and 2020, out of 85 and 38 GEM applications, only 10 and 5, respectively were successfully listed, a success rate as low as about 16.5% and 13.2%, respectively. There were no successful applications since 2020. These figures underscore the need for more significant reforms.

Several important observations have been made by HKCMP:

- While the Paper rightly emphasises technology and R&D promotion, it should broaden its focus beyond technology and R&D companies to provide a more sector neutral listing platform
- The proposed alternative eligibility test could compel listing applicants to incur substantial operating expenditures of at least HK\$200 million, consequently resulting in significant losses of at least HK\$100 million over the past two financial years prior to listing, potentially deterring applicants
- The Paper fails to address the high costs, uncertainties and lengthy vetting processes that have deterred many potential listing applicants from seeking a listing on the GEM

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## *HKCMP's Recommendations*

HKCMP advocates a transparent, streamlined, and efficient a vetting process with defined timelines and the elimination of subjective criteria.

HKCMP recommends a thorough reassessment of the operating cash flow requirement, considering the economic ramifications of the pandemic. As an alternative measure, HKCMP proposes integrating a reasonable profit requirement test to accommodate SMEs with reasonable profitability levels but falling short of the prevailing requirements for operating cash flow or revenue thresholds.

HKCMP strongly urges a more holistic approach to reform, addressing the significant obstacles faced by SMEs seeking GEM listings. These include re-evaluation of restrictions on acquisitions and measures aimed at eradicating reverse takeovers and cash companies, which can negatively affect perceptions of GEM listings and have a consequent impact on the overall performance of the capital market. HKCMP will endeavour to work with all financial market stakeholders to safeguard Hong Kong as a leading international financial centre.

## *About HKCMP*

Founded by experienced capital market professionals, the HKCMP's vision is to promote Hong Kong as a pre-eminent international capital market. HKCMP is dedicated to fostering a diverse and inclusive market environment for businesses of all scales. Acting as a vital link between the market and regulatory bodies, one of the Association's aims is to support small and medium-sized enterprises to prosper and grow with access to the Hong Kong capital market.

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