

LCQ4: Revitalising Growth Enterprise Market

Following is a question by the Hon Mrs Regina Ip and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (September 8):

Question:

The Stock Exchange of Hong Kong Limited (SEHK) launched the Growth Enterprise Market (GEM) in 1999, and amended the GEM Listing Rules in 2018 to raise the GEM admission requirements and remove the "streamlined application process" for transfer of listings from GEM to the Main Board. Some members of the industry have pointed out that the amendments concerned have undermined the positioning of GEM as a "stepping stone" to the Main Board, and deprived small and medium enterprises (SMEs) of the opportunity to raise funds through listing on GEM (given the fact that only one company was newly listed on GEM in the first half of this year). In addition, in the absence of investors' attention, it is difficult for the 360-odd companies currently listed on GEM to raise funds (as illustrated by the fact that the "amount of funds raised by companies after listing" last year was less than one fourth of that a decade ago). In this connection, will the Government inform this Council whether it knows if SEHK has plans to revitalise GEM, so that more SMEs can raise funds through listing on GEM; if SEHK does, of the details; if not, the reasons for that?

Reply:

President,

Hong Kong is a major global listing platform for companies from different jurisdictions. During the past 12 years, Hong Kong had ranked first in the world seven times in terms of funds raised through initial public offerings (IPOs). In the first eight months of this year, Hong Kong raised a total of HK\$269.8 billion of funds through IPOs, representing 81 per cent increase when compared with the figure for the same period last year.

The Government, regulators and Hong Kong Exchanges and Clearing Limited (HKEX) strive to develop Hong Kong into a broader and deeper fundraising platform and safeguard investors' interests.

As far as the Growth Enterprise Market (which is called GEM at present) is concerned, in response to market views that the requirements of GEM back then were abused by market participants, causing possible disruption to the order of the market of some securities and thereby affecting the overall quality of the market, HKEX repositioned GEM in 2018 as a stand-alone board to provide a fundraising platform for small and medium-sized enterprises (SMEs) after consulting the market's views in 2017.

The streamlined process for transfer to the Main Board (Streamlined Process) was cancelled under GEM having considered the problems more commonly found among GEM issuers back then including high shareholding concentration, illiquidity and high share price volatility, which led to market concerns that the relevant process might be exploited by issuers with poorer quality to gain easier access to the Main Board via GEM. The Streamlined Process was also considered by market participants as being contrary to the objective of the sponsor regime implemented in October 2013 which was to ensure companies seeking a listing either on the Main Board or GEM have comprehensive due diligence conducted on them with properly drafted listing documents prior to admission to the relevant board. If an issuer can list on the Main Board through transfer from GEM without having gone through due diligence process, there is a risk that GEM would be exploited given the different listing eligibility requirements between the two boards which may eventually affect the quality and reputation of the Hong Kong market.

According to the figures from HKEX, the effect of the then Growth Enterprise Market as a "stepping stone" was limited. For example, the total number of transfer from the Growth Enterprise Market to the Main Board as a percentage of the total number of Growth Enterprise Market issuers eligible for the transfer decreased from 7.2 per cent in the second half of 2008 to 2.7 per cent in 2016.

In order to maintain a clear distinction between the positioning of the Main Board and GEM, HKEX raised the minimum market capitalisation at the time of listing of GEM applicants from HK\$100 million to HK\$150 million and the minimum public float value of securities from HK\$30 million to HK\$45 million, while at the same time correspondingly raised the minimum market capitalisation at the time of listing of Main Board applicants from HK\$200 million to HK\$500 million and the minimum public float value of securities from HK\$50 million to HK\$125 million.

HKEX is cognizant of market views that the relevant measures will have impact on SMEs that intends to list. Nevertheless, HKEX has the responsibility to uphold and continuously enhance the quality of Hong Kong's capital market and act in the interest of the investing public in accordance with the requirements in the Securities and Futures Ordinance. The relevant measures would help enhance the overall quality of the market and would not deprive suitable SMEs of the opportunity to list in Hong Kong. They will also facilitate the development of the Main Board and GEM in the long run. The increased differentiation between the listing requirements of GEM and Main Board will allow applicants which intend to list in Hong Kong but could not meet the Main Board listing requirements, including SMEs with lower market capitalisation and profit, to choose GEM as a more targeted alternative listing platform.

In light of some feedback that the removal of the Streamline Process would make the transfer to Main Board unduly onerous, HKEX has provided certain facilitating measures for applicants which transfer from GEM under the new process. These include dispensation with certain documentary

requirements, exemption from the requirements on post-Initial Public Offering lock-up, restriction on fund raising and appointment of compliance adviser. Furthermore, applicants which transfer from GEM to the Main Board are not required to comply with the relevant delisting procedures.

HKEX understands from the other market consultations conducted subsequently that market participants considered that HKEX should further study about enhancing the positioning and functions of GEM as a specific board for listing of SMEs in order to further attract and facilitate the listing and fundraising of SMEs. On the other hand, there were market comments that the GEM Listing Rules should be reviewed to strengthen regulation. In this regard, HKEX has launched a review to carefully consider the market's views on GEM's positioning and market perception as well as to study about the development of similar markets in other places. If the review concludes that changes to the GEM Listing Rules are necessary, HKEX will further consult the market on the proposals.