



CWK GLOBAL SNAPSHOT

HONG KONG
STOCK EXCHANGE
PROPOSES
**GEM LISTING
REFORMS**
KEY HIGHLIGHTS



IMPORTANT

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HONG KONG STOCK EXCHANGE PROPOSES GEM LISTING REFORMS

The Stock Exchange of Hong Kong Limited (Exchange) released a consultation paper on 26 September 2023, outlining its proposals for GEM listing reform. The paper aims to gather feedback from the market, with the deadline for providing input set for 6 November 2023.

BACKGROUND

Since 2019, there has been a notable decrease in the number of new listings on the Growth Enterprise Market (GEM) as well as the funds raised through these listings. In fact, no new listings have occurred on GEM since January 2021. Recognizing the importance of GEM as an option for small and medium-sized enterprises (SMEs) to secure capital for growth, innovation, and value creation, the local stock exchange has acknowledged that promoting and facilitating SME listings remains a top priority. After engaging with various stakeholders to understand their concerns regarding GEM, the Exchange has developed proposals aimed at reforming the GEM listing regime.

KEY PROPOSALS

(A) Proposed amendment - introduction of a new financial eligibility test

The proposed amendment by the Exchange includes the introduction of a new financial eligibility test known as the "market capitalization/revenue/R&D test." This test specifically targets high-growth enterprises that actively participate in research and development (R&D) activities. Meanwhile, the existing cash flow base test will remain unchanged and will remain an available option for companies.

GEM listing applicants must meet under the two tests is set out in the table below:

REQUIREMENTS	PROPOSED NEW "MARKET CAPITALISATION/REVENUE /R&D TEST"	EXISTING "CASH FLOW TEST"
Track record	≥ Two financial years	
Market capitalisation at the time of listing	≥ HKD 250 million	≥ HKD150 million
Revenue	≥ HKD 100 million (in aggregate for the two most recent financial years, with a year-on-year growth of revenue over the two financial years)	Nil
Cash flow	Nil	Positive cash flow from operating activities of ≥ HKD 30 million (in aggregate for the two most recent financial years)
R&D expenditure	≥HKD 30 million (in aggregate for the two most recent financial years) + ≥15% of the total operating expenditure (for each of the two most recent financial years)	
Continuity of ownership and control	Throughout the full financial year immediately preceding the issue of the listing document and up until the date of listing	
Management continuity	Throughout the two full financial years immediately preceding the issue of the listing document and up until the date of listing	

KEY PROPOSALS (CONTINUED)

(B) Proposed reduction of post-IPO lock-up period for controlling shareholders

The HKEX is proposing a reduction in the post-IPO lock-up period for controlling shareholders of GEM issuers. Currently, the lock-up period is set at 24 months, aligning it with the Main Board requirements, thereby reducing it to 12 months.

(C) Proposed new streamlined transfer mechanism

The Exchange has proposed the implementation of a streamlined transfer mechanism to facilitate the transfer of qualified GEM issuers to the Main Board. This mechanism aims to simplify the transfer process by modifying the eligibility requirements. Under this proposed streamlined transfer mechanism, GEM issuers who meet the modified qualification requirements would not be required to appoint a sponsor for due diligence or publish a "prospectus-standard" listing document.

Instead, the GEM transfer applicants would need to submit specific applications and supporting documents to the Exchange. They would also be required to publish a pre-vetted "long-form" announcement at least five clear business days before the intended start date of share dealings on the Main Board.

However, for GEM issuers that do not meet these modified eligibility requirements, they can still choose to apply for a transfer under the existing requirements. In such cases, the proposed requirements for the streamlined transfer mechanism would not apply.

The HKEX expects the new streamlined transfer mechanism would not lead to a resurgence of shell activities but encourage more issuers to list on GEM.

A comparison between the qualification requirements under the proposed new streamlined transfer mechanism and the existing transfer requirements is set out in the table below:

QUALIFICATION FOR TRANSFER	PROPOSED NEW STREAMLINED TRANSFER MECHANISM (UNDER A NEW CHAPTER 9B OF THE MAIN BOARD LISTING RULES)	EXISTING TRANSFER REQUIREMENTS (UNDER CHAPTER 9A OF THE MAIN BOARD LISTING RULES)
Qualifications for listing on the Main Board	The transfer applicant must meet all the qualifications for listing on the Main Board set out in the Main Board Listing Rules.	
Track record	<p>The transfer applicant must have published its financial results for the three full financial years commencing after the date of its initial listing</p> <p>+</p> <p>Throughout the three full financial years immediately preceding the transfer application and until the commencement of dealings in its securities on the Main Board, the transfer applicant must:</p> <ul style="list-style-type: none"> • have had continuity of ownership and control; • have not effected any transactions or arrangements that resulted in a fundamental change in its principal business activities. 	The transfer applicant must have published its financial results for the first full financial year commencing after the date of its initial listing
Daily turnover test	<p>The transfer applicant must have a minimum daily turnover threshold on $\geq 50\%$ of the trading days over a prescribed reference period of 250 trading days immediately preceding the transfer application and until the commencement of dealings on the Main Board (Reference Period).</p> <p>The Exchange proposes the minimum threshold be set at either HK\$100,000 or HK\$50,000, and seeks views on which is preferred.</p>	Nil

QUALIFICATION FOR TRANSFER	PROPOSED NEW STREAMLINED TRANSFER MECHANISM (UNDER A NEW CHAPTER 9B OF THE MAIN BOARD LISTING RULES)	EXISTING TRANSFER REQUIREMENTS (UNDER CHAPTER 9A OF THE MAIN BOARD LISTING RULES)
Volume weighted average market capitalisation test	The transfer applicant must have a volume weighted average market capitalisation over the Reference Period that could meet the minimum market capitalisation requirement for listing on the Main Board.	Nil
Compliance record	<p>The Exchange proposes to modify the current Main Board Listing Rules to help ensure a GEM transfer applicant has a clean compliance record during the 12-month period prior to the transfer application and up to the date of transfer. Such proposed amendments will apply to all transfers of listing (whether under the proposed new streamlined transfer mechanism or the existing mechanism).</p> <p>Under the proposed modified rules, the transfer applicant must:</p> <ul style="list-style-type: none"> • have not been held to have committed a serious breach of any GEM Listing Rules or Main Board Listing Rules in the 12 months preceding the transfer application and until the commencement of dealings in its securities on the Main Board; and • not be the subject of any investigation by the Exchange, or any ongoing disciplinary proceedings under Chapter 3 of the GEM Listing Rules, in relation to a serious breach or potentially serious breach of any GEM Listing Rules or Main Board Listing Rules as at (i) the date of the transfer application and (ii) the date when dealing in its securities commences on the Main Board. 	

If a GEM issuer does not meet the qualification criteria outlined in the proposed streamlined transfer mechanism, they have the option to apply for a transfer under the existing mechanism. In such cases, the GEM issuer will need to engage a sponsor to conduct due diligence and prepare a comprehensive listing document that meets the standards of a prospectus.

Furthermore, the Exchange suggests exempting GEM transferees to the Main Board from the Main Board initial listing fee. This measure aims to lower the cost associated with transferring a listing from GEM to the Main Board.

(D) Proposed alignment of certain continuing obligations of GEM issuers with those applicable to Main Board issuers.

Taking into account feedback from stakeholders regarding the perceived burdensome continuing obligations placed on GEM issuers under the current GEM Listing Rules, the Exchange has put forth proposed amendments aimed at aligning the relevant continuing obligations of GEM issuers with those applicable to Main Board issuer:

	Current continuing obligations of GEM issuers that differ from those for Main Board issuers	Proposed changes to bring in line with those for Main Board issues
Mandatory quarterly reporting requirements	<p>A GEM issuer is required to publish:</p> <ul style="list-style-type: none"> preliminary announcements of results for each of the first three-month and nine-month periods of each financial year; and quarterly reports, in each case, not later than 45 days after the date upon the relevant financial period ended. 	Remove the mandatory quarterly reporting requirements.
Timeframes for publication of annual reports, half-year reports and interim results	<p>A GEM issuer is required to publish:</p> <ul style="list-style-type: none"> annual reports – not later than three months; half-year reports – not later than 45 days; preliminary announcements of results for the first six months of each financial year – not later than 45 days, in each case, after the date upon the relevant financial period ended. 	<p>Align the timeframes with those required of Main Board issuers, i.e., a GEM issuer would be required to publish:</p> <ul style="list-style-type: none"> annual reports – not later than four months; half-year reports (renamed to “interim reports”) – not later than three months; preliminary announcements of results for the first six months of each financial year – not later than two months, in each case, after the date upon the relevant financial period ended.

	Current continuing obligations of GEM issuers that differ from those for Main Board issuers	Proposed changes to bring in line with those for Main Board issues
Compliance offer	A GEM issuer must at all times have one of its executive directors to assume responsibility for acting its compliance officer	Remove this requirement
Compliance adviser	A GEM issuer must appoint a compliance adviser for the period commencing on the date of its initial listing and ending on the date on which it publishes its financial results for the second full financial year commencing after the date of its initial listing	Shorten the period of engagement of the compliance adviser so that it ends on the date on which it publishes its financial results for the first full financial year commencing after the date of its initial listing
	The current GEM Listing Rules contain requirements relating to a compliance adviser's responsibilities with regards to: (a) due diligence on listing documents published, and dealing with the Exchange, in relation to certain transactions during the period of engagement of the compliance adviser; and (b) disclosure of interests of the compliance adviser for this purpose.	Remove these requirements

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Our core services include Initial Public Offerings (IPO) consultancy, corporate finance consultancy, trust and fund consultancy, global tax planning, internal control review, listed corporates "Environmental, Social and Governance" (ESG) analysis and reporting, accounting, auditing, and company secretarial services.

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