

# HONG KONG CAPITAL MARKET UPDATES

FEBRUARY 2024

## Hong Kong GEM Listing Reforms

On 15 December 2023, The Stock Exchange of Hong Kong Limited (HKEX) published the consultation conclusions on GEM listing reforms (the GEM Listing Reforms). The listing rule amendments for the GEM Listing Reforms came into effect on 1 January 2024.

### Key amendments

#### 1. A new alternative eligibility test: the market capitalisation/revenue/research and development (R&D) test

The GEM Listing Reforms introduce an alternative eligibility test – the market capitalisation/revenue/R&D test in addition to the existing cash flow test. The new eligibility test targets high growth enterprises that are heavily engaged in R&D activities, and it is open to companies from all industries.

The table below compares the key eligibility requirements of the two tests for listing on GEM:

	Existing eligibility test (Cash flow test)	New alternative eligibility test (Market capitalisation/revenue/R&D test)
GEM Listing Rules	Chapter 11.12A(1) to (3)	Chapter 11.12A(4)
Track record	<ul style="list-style-type: none"> <li>▶ Trading record of at least two financial years</li> <li>▶ Management continuity throughout the two full financial years and up to the time of listing</li> <li>▶ Continuity of ownership and control for the most recent financial year and up to the time of listing</li> </ul>	
Financial eligibility	<ul style="list-style-type: none"> <li>▶ <b>Operating cash flow</b> - A positive cash flow of at least HK\$30 million in aggregate for the last two financial years, generated from operating activities in the ordinary and usual course of business</li> </ul>	<ul style="list-style-type: none"> <li>▶ <b>Revenue</b> - at least HK\$100 million in aggregate for the last two financial years, with a year-on-year growth in revenue over the two financial years</li> <li>▶ <b>R&amp;D expenditure</b> – at least HK\$30 million in aggregate for the last two financial years</li> <li>▶ <b>R&amp;D expenditure ratio</b> - R&amp;D expenditure incurred for each financial year must be at least 15% of the total operating expenditure for the same period</li> </ul>
Market capitalisation at the time of listing	At least HK\$150 million	At least HK\$250 million

### Highlights of the GEM Listing Reforms

- ▶ A new alternative eligibility test – the market capitalisation/revenue/R&D test – targeting high growth enterprises that are heavily engaged in R&D activities
- ▶ A new streamlined GEM transfer mechanism for transferring listings to the Main Board without the need to: (a) appoint a sponsor to carry out due diligence; or (b) issue a 'prospectus-standard' listing document
- ▶ Aligning the periodic financial reporting requirements with those of the Main Board by: (a) removing the mandatory quarterly financial reporting requirements; and (b) aligning the half-yearly and annual financial reporting deadlines with those of the Main Board

## 2. A new streamlined mechanism for transferring listings to the Main Board

The GEM Listing Reforms also introduce a new streamlined GEM transfer mechanism as an alternative to the existing GEM transfer mechanism. The new mechanism allows GEM listed issuers who meet certain qualifying criteria to apply for a transfer to the Main Board (GEM Transfer) without needing to: (a) appoint a sponsor to carry out due diligence; or (b) produce a 'prospectus- standard' listing document.

The table below compares the key qualifications, sponsors and publication requirements under the two GEM transfer mechanisms:

	Existing GEM transfer mechanism	New streamlined GEM transfer mechanism
Main Board Listing Rules	Chapter 9A	Chapter 9B
A. Qualifications for GEM Transfer		
Qualification for listing on the Main Board	Meet all the qualifications for listing on the Main Board	
Publication of financial results	Published its financial results for the first full financial year commencing after the date of the initial listing	Published its financial results for the three full financial years commencing after the date of the initial listing
Ownership and control	Meet the relevant requirements for listing on the Main Board	Continuity of ownership and control throughout the three full financial years immediately preceding the transfer application and until the commencement of dealings in securities on the Main Board
Principal business	Meet the relevant requirements for listing on the Main Board	Must not have effected any acquisition, disposal or other transaction or arrangement or a series of acquisitions, disposals or other transactions or arrangements, that resulted in a fundamental change in the company's principal business throughout the three full financial years immediately preceding the transfer application and until the commencement of dealings in securities on the Main Board
Daily turnover test	No requirement	Minimum daily turnover threshold of HK\$50,000 on at least 50% of the trading days over a reference period of 250 trading days immediately preceding the transfer application and until the commencement of dealings in securities on the Main Board (the Reference Period)
Volume weighted average market capitalisation test	No requirement	A volume weighted average market capitalisation over the Reference Period that could meet the minimum market capitalisation requirement for listing on the Main Board
Compliance record	<div>▶ Not held to have committed a serious breach of any GEM or Main Board Listing Rules in the 12 months preceding the transfer application and until the commencement of dealings in securities on the Main Board; and</div> <div>▶ Not be the subject of any investigation by the HKEX, or any ongoing disciplinary proceedings under Chapter 3 of the GEM Listing Rules or Chapter 2A of the Main Board 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 securities commences on the Main Board</div>	
B. Sponsor and publication requirements		
Sponsor requirement	A sponsor must be appointed at least two months before submitting a transfer application	No requirement
Publication requirement	Must issue a 'prospectus- standard' listing document	Must publish a transfer announcement

GEM listed issuers that are not eligible for applying for a GEM Transfer under the new streamlined GEM transfer mechanism may still use the existing GEM transfer mechanism.



### 3. Aligning the periodic financial reporting requirements with those of the Main Board

The GEM Listing Reforms also align the periodic reporting requirements for GEM listed issuers with the requirements for Main Board listed issuers by: (a) removing the mandatory requirement for quarterly reporting for GEM listed issuers, and instead introducing it as a recommended best practice (RBP) in GEM's Corporate Governance Code; and (b) bringing GEM's deadlines for the announcement of results and for financial reports into line with those for the Main Board. These deadlines are as follows:

Reporting deadlines (days/months after the end of the relevant period)		
	Old requirement	New requirement
Half-year end		
• Announcement of results	45 days	2 months
• Report	45 days	3 months
Financial year end		
• Announcement of results	3 months	3 months
• Report	3 months	4 months



## Other amendments

Under the GEM Listing Reforms, certain Listing Rules have also been amended to align particular continuing obligations with those of the Main Board. These amendments include, among others:

- ▶ reducing the post-IPO 24-month lock-up period imposed on controlling shareholders of GEM listed issuers from 24 months to 12 months;
- ▶ removing the requirement for one of the executive directors of a GEM listed issuer to act as the listed issuer's compliance officer; and
- ▶ shortening the engagement period for GEM listed issuers' compliance advisers so that it ends on the date on which the listed issuer publishes its financial results for the first (instead of the second) full financial year commencing after the date of its initial listing.

## Effective date and implementation of the amended Listing Rules

The amended Listing Rules took effect on 1 January 2024, with the following transitional arrangements that should be observed:

### New streamlined transfer mechanism

Any GEM listed issuer who wishes to transfer its listing to the Main Board through the new streamlined transfer mechanism must submit a new transfer application on or after 1 January 2024.

### Periodic financial reporting

- ▶ GEM listed issuers will not be required to publish a quarterly report or a preliminary announcement of their quarterly results if the publication due date would fall on a date on or after 1 January 2024 under the old GEM Listing Rules.
- ▶ The extended half-year and annual report publication deadlines will apply to any annual or interim report and announcement of results for a financial year or half-year if the publication due date would fall on or after 1 January 2024 under the old GEM Listing Rules.

For more details, please see the conclusions on the consultation: [Link](#)

## Speak to our BDO professionals

If you have any questions or need further assistance on GEM Listing Reforms or any other IPO-related issues, please feel free to contact us for further discussion or find out how we can help you with a tailored assurance solution.

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