

## GEM CONSULTATION CONCLUSIONS AND CHANGES TO MAIN BOARD AND GEM LISTING RULES - MORE STRINGENT LISTING REQUIREMENTS OF HONG KONG IPO MARKET



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### Introduction

In December 2017, The Stock Exchange of Hong Kong Limited published its consultation conclusions on the Consultation Paper on the Review of the Growth Enterprise Market (GEM) and changes to the Listing Rules. Amendments to the GEM and Main Board Listing Rules will be introduced to reflect the new role of GEM as a market for small and mid-sized companies, and also to reflect a clear distinction between issuers listed on GEM and the Main Board. The revised GEM Listing Rules and Main Board Listing Rules will become effective on 15 February 2018.

### Name change

To reflect a clear distinction between issuers listed on GEM and the Main Board and to reflect the new role of GEM as a market for small and mid-sized companies, the existing names "Growth Enterprise Market" and 「創業板」 will be changed to "GEM".

## Tougher listing requirements

The key changes to Main Board Listing Rules are as follows:

	Current regime	Revised regime
Minimum market capitalisation at the time of listing	HK\$200 million	HK\$500 million (increased by 150%)
Minimum public float value at time of listing	HK\$50 million	HK\$125 million (increased by 150%)

The key changes to GEM Listing Rules are as follows:

	Current regime	Revised regime
Minimum cash inflow from operating activities before changes in working capital for two financial years under the track record period	HK\$20 million	HK\$30 million (increased by 50%)
Minimum market capitalisation at the time of listing	HK\$100 million	HK\$150 million (increased by 50%)
Minimum public float value at time of listing	HK\$30 million	HK\$45 million (increased by 50%)
Post IPO lock-up on controlling shareholders	First 6 months upon listing – Controlling shareholders are restricted from selling shares  Next 6 months - Controlling shareholders can sell shares, but must retain control	First 12 months upon listing – Controlling shareholders are restricted from selling shares  Next 12 months - Controlling shareholders can sell shares, but must retain control
Offering mechanism	Free to decide the offering mechanism, 100% placing is allowed	Public offering of at least 10% of the total offer size is mandatory
Transfer from GEM to Main Board (Note)	Streamlined process  GEM issuers can apply for transfer to the Main Board if they meet the Main Board admission requirements, without the need to appoint a sponsor and to issue a listing document	No streamlined process  GEM issuers who apply for transfer to Main Board will be required to appoint a sponsor to conduct due diligence and to publish a listing document

Note: Transitional arrangements in relation to GEM Transfer Applications

<p>Transfer Application submitted before Amendment Effective Date (ie 15 February 2018)</p>	<ul style="list-style-type: none"> <li>- Processed under the current streamlined process</li> <li>- Only one renewal of such application permitted</li> <li>- Eligibility for the Main Board will be assessed in accordance with the Main Board Listing Rules in force before 15 February 2018</li> </ul>
<p>Transfer Application submitted within the Transitional Period (ie 3-year period from 15 February 2018)</p>	<p>For the GEM issuer that qualified as Eligible GEM Issuers (see criteria below), the eligibility for transfer to Main Board will be assessed in accordance with the Main Board Listing Rules in force before 15 February 2018.</p> <p>Criteria for Eligible GEM Issuers:</p> <ul style="list-style-type: none"> <li>a. Companies listed on GEM as at 16 June 2017; or</li> <li>b. GEM applicants who have submitted a valid listing application as at 16 June 2017 and subsequently listed on GEM pursuant to such application with only one renewal of such application</li> </ul> <p>The aforementioned Eligible GEM Issuers are entitled to the following transitional arrangements:</p> <ul style="list-style-type: none"> <li>i. Eligible GEM Issuers that did not change their principal businesses and controlling shareholders since listing on GEM are required to:                         <ul style="list-style-type: none"> <li>- prepare a GEM transfer announcement in connection with its GEM transfer; and</li> <li>- appoint a sponsor to conduct due diligence in respect of their activities during the most recent full financial year and up to the date of the GEM transfer announcement</li> </ul> </li> <li>ii. Eligible GEM Issuers that have changed their principal businesses and/or controlling shareholders since listing on GEM are required to:                         <ul style="list-style-type: none"> <li>- publish a listing document as a new listing applicant to the Main Board; and</li> <li>- appoint a sponsor to conduct due diligence for the whole track record period and up to the date of a listing document</li> </ul> </li> </ul> <p>Those Transfer Applications made within the Transitional Period by GEM issuers that are not qualified as Eligible GEM Issuers will be processed and their eligibility will be assessed under the revised Main Board Listing Rules.</p>
<p>Transfer Applications submitted after the Transitional Period</p>	<p>Processed and eligibility assessed under the revised Main Board Listing Rules</p>

## Effective date for the changes to Main Board and GEM Listing Rules

All new listing applications submitted before 15 February 2018 (the Amendment Effective Date) will be processed in accordance with the GEM or Main Board Listing Rules in force before 15 February 2018. Applications received on or after the Amendment Effective Date will be processed in accordance with the amended GEM or Main Board Listing Rules.

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