

Hong Kong Capital Markets Update

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HKEX's consultation conclusions on GEM Listing Reforms

On 15 December 2023, the Stock Exchange of Hong Kong Limited (the "Exchange") published the [conclusions](#) of its consultation on proposed changes to the GEM Listing Rules ("Conclusions"). The key changes are summarised below:

Summary

New alternative eligibility test – "Market capitalisation/ Revenue/ R&D test"

- Introduce a new eligibility test targeting high growth enterprises that are heavily engaged in R&D activities:

	Market capitalisation/ Revenue/ R&D test
Market Capitalisation	<ul style="list-style-type: none"> At least HK\$250 million at the time of listing
Revenue	<ul style="list-style-type: none"> At least HK\$100 million in aggregate for the two financial years prior to listing, with a year-on-year growth over the two financial years
R&D expenditure	<ul style="list-style-type: none"> At least HK\$30 million in aggregate for the two financial years prior to listing At least 15% of its total operating expenditure for each of the two financial years
Track Record	<ul style="list-style-type: none"> At least two financial years
Ownership Continuity	<ul style="list-style-type: none"> At least the full financial year prior to the listing and up until the date of listing
Management Continuity	<ul style="list-style-type: none"> At least two full financial years prior to the listing and up until the date of listing

Alignment of requirements for GEM issuers with those for Main Board issuers

- Remove quarterly reporting as a mandatory requirement;
- Bring interim and annual reporting requirements in line with the Main Board requirements;
- Shorten the post-IPO lock-up period on controlling shareholder(s);
- Remove the compliance officer requirement; and
- Shorten the engagement period for compliance adviser and remove other compliance adviser requirements that only apply to GEM issuers.

New streamlined approach and fee exemption for transfers to Main Board

- An overview of the new streamlined transfer mechanism for eligible GEM issuers is set out in **Table 1** below.
- Exempt transfer applicants from the Main Board initial listing fee.

Background

To enhance GEM's attractiveness whilst maintaining high standards of investor protection, the Exchange published a [consultation paper](#) ("Consultation Paper") on 26 September 2023 to seek market feedback on GEM listing reform proposals (please refer to our [Capital Markets Update Issue 2023-07](#) for a summary). The consultation period ended on 6 November 2023.

After considering the market feedback, the Exchange has decided to implement the proposals set out in the Consultation Paper with minor modifications and clarifications. The key proposals adopted are set out in the Summary above. The amendments to Listing Rules in relation to GEM reforms will come into effect on 1 January 2024.

Table 1: New streamlined transfer mechanism

New streamlined transfer mechanism	
A. Qualifications for transfer	The transfer applicant must: <ul style="list-style-type: none"> (a) meet all the qualifications for listing on the Main Board; (b) comply with the Exchange’s requirement in respect of its financial results for the three full financial years as a GEM listed issuer prior to its transfer, with (i) ownership continuity and control, and (ii) no fundamental change in its principal business, throughout that period; (c) have reached the Minimum Daily Turnover Threshold of HK\$50,000 on at least 50% of the trading days over the Reference Period* (the "Daily Turnover Test"); (d) 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 (the "Volume Weighted Average Market Capitalisation Test"); and (e) (i) not have been held to have committed a serious breach of any Listing Rules in the 12 months preceding the transfer application and until the commencement of dealings in its securities on the Main Board; and (ii) 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 Listing Rules as at the date of the transfer application and the date when dealing in its securities commences on the Main Board.
B. Sponsor appointment/ due diligence	A transfer applicant will <u>not</u> be required to appoint a sponsor to conduct due diligence for its transfer.
C. Publication of a listing document	A transfer applicant will <u>not</u> be required to issue a “prospectus-standard” listing document. A transfer applicant will only be required to submit certain application documents as required by the Exchange.
D. Transfer announcement	The transfer applicant will be required to publish an announcement as soon as practicable before the intended date dealings in the issuer’s shares on the Main Board are expected to commence. Such an announcement should be pre-vetted by the Listing Division.

* 250 trading days immediately preceding the transfer application and until the commencement of dealings in its securities on the Main Board

If you have any questions about the matters discussed in this publication, please feel free to contact the following capital markets partners.

Paul Lau

Partner, Head of Capital Markets and Professional Practice
KPMG China
+852 2826 8010
paul.k.lau@kpmg.com

Louis Lau

Partner, Capital Markets Group
KPMG China
+852 2143 8876
louis.lau@kpmg.com

Terence Man

Partner, Capital Markets Group
KPMG China
+86 10 8508 5548
terence.man@kpmg.com

Mike Tang

Partner, Capital Markets Group
KPMG China
+852 2833 1636
mike.tang@kpmg.com

Elton Tam

Partner, Capital Markets Group
KPMG China
+852 2978 8188
elton.tam@kpmg.com

kpmg.com/cn

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