Proposed New Reforms to the GEM board on the HKEX

By Dennis Fong | Bosco Leung

In September 2023, the Stock Exchange of Hong Kong Limited (the "**HKEX**") published a Consultation Paper on GEM Listing Reforms (the "**Consultation Paper**"), which seeks to invite comments on the proposed reforms to the GEM board on the HKEX, which shall be effective from 31 December 2023.

What are the major proposals?

Some key changes are listed below:

1. Implementing a new eligibility test targeting high growth enterprises that are heavily engaged in research and development (R&D) activities.
2. Launching a new transfer arrangement enabling qualified GEM issuers to transfer to the Main Board without needing to appoint a sponsor to carry out due diligence, nor to produce a "prospectus-standard" listing document.
3. Aligning continuous obligations with those of the Main Board, such as removing the requirement of providing mandatory quarter report and shortening the lock-up period for controlling shareholders.

The detailed proposed changes are set out below:

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Proposed New Eligibility Test

Market	HKEX GEM	
	Existing requirement	Proposed new and additional eligibility requirement
Market Capitalisation	⩾HK$150M	⩾HK$250M
Cash Flow	⩾HK$30M (in aggregate for last two financial years)	Nil
Revenue		⩾HK$100M (in aggregate for last two financial years; with year-on-year growth over the two financial years' concerned)
R&D Expenditure		⩾HK$30M (in aggregate for last two financial years) + 15% total operating cost (for each of the two years)

Proposed New Streamlined Transfer Mechanism

Market	HKEX GEM	
	Existing requirement	New proposed Requirement
Eligibility test	Must meet all qualifications for listing on the Main Board, plus	Must meet all qualifications for listing on the Main Board, plus
appointment of sponsor	✓	x
publication of a "prospectus – standard" listing document	✓	x
minimum daily turnover	-	A period of 250 trading days immediately before the transfer application ("Reference Period") is introduced, and at least 50% of the Reference Period must meet the threshold of HK$50,000 or HK$100,000
volume weighted average market capitalisation	-	Needs to be satisfied during the whole Reference Period (i.e. at least HK$500 million)
publication of transfer announcement, pre-vetted by HKEX	-	✓
Track Record of Listing	One full financial year after GEM listing	Three full financial years as a GEM issuer prior to transfer

Proposed Reforms on other aspects

Market	HKEX GEM	
	Existing requirement	New proposed Requirement
Post-IPO Lock Up for Controlling Shareholders	24 months	12 months
Periodic Reporting	Quarterly, interim and annual reporting	Interim and annual reporting only
One Executive Director to Act as Compliance Officer	At all times	No longer required
Appointment of Compliance Adviser (CA)/Sponsor	Must retain CA until publication of its results for the second full financial year after listing	Must retain CA until publication of annual report for first full financial year

Conclusion

In view of rejuvenating the transactions at GEM in an orderly manner, HKEX seeks to provide an easier way for new technology company to go public by proposing the new eligibility test for GEM listing, with a threshold much lower than the Chapters 18A and 18C regime. The route to transfer of listing to Main Board by quality GEM issuers is also made easier under the alternative streamlined transfer mechanism, so to provide incentive for existing GEM issuers to improve their performance.

If you would like to know more information about the subjects covered in this publication, please contact:

Dennis Fong
+852 2592 1910
dennis.fong@llinkslaw.com.hk

Bosco Leung
+852 2592 1983
bosco.leung@llinkslaw.com.hk

SHANGHAI

19F, ONE LUJIAZUI
68 Yin Cheng Road Middle
Shanghai 200120 P.R.China
T: +86 21 3135 8666
F: +86 21 3135 8600

BEIJING

30F, Central Tower, China Overseas Plaza, 8 Guanghuadongli,
Chaoyang District
Beijing 100020 P.R.China
T: +86 10 5081 3888
F: +86 10 5081 3866

SHENZHEN

18F, China Resources Tower
2666 Keyuan South Road,
Nanshan District
Shenzhen 518063 P.R.China
T: +86 755 3391 7666
F: +86 755 3391 7668

HONG KONG

Room 3201, 32/F, Alexandra House
18 Chater Road
Central, Hong Kong
T: +852 2592 1978
F: +852 2868 0883

LONDON

1/F, 3 More London Riverside
London SE1 2RE
United Kingdom
T: +44 (0)20 3283 4337
D: +44 (0)20 3283 4323

www.llinkslaw.com

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