

**For information**

**Legislative Council Panel on Financial Affairs**

**Review of the Growth Enterprise Market (“GEM”) and  
Changes to the GEM and Main Board Listing Rules**

**Purpose**

This paper informs Members of the reforms made to the Main Board and GEM Listing Rules, which took effect on 15 February 2018, following the consultation conducted by the Stock Exchange of Hong Kong Limited (“the Exchange”) on the proposed reform to GEM in 2017.

**Consultation on the Proposed Reform to GEM**

*Background*

2. On 16 June 2017, the Exchange published a consultation paper on the captioned subject (“the Consultation Paper”) to seek public feedback on the proposed reform to GEM to ensure that they reflect the currently acceptable standards in the market and address concerns on the quality and performance of GEM applicants and listed issuers.

3. The Consultation Paper sought the market’s views on specific reform proposals in four key areas. Brief summary is as follows –

- (a) GEM’s position: to reform GEM by re-positioning it as a stand-alone board and removing the GEM Streamlined Process under which GEM issuers that transfer their listings to the Main Board (“GEM Transfers”) would enjoy certain convenience. After the removal of the GEM Streamlined Process, issuers that transfer to the Main Board would be required to (i) engage a sponsor to conduct due diligence; and (ii) issue a “prospectus-standard” listing document.
- (b) GEM admission requirements: to increase (i) the cashflow requirements from at least \$20 million to at least \$30 million; (ii) the minimum market capitalisation requirement from \$100 million to \$150 million; and (iii) post-initial

public offering (“IPO”) lock-up requirement on controlling shareholders from one year to two years.

- (c) open market requirement: to (i) introduce a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs; (ii) increase GEM’s minimum public float value of securities from \$30 million to \$45 million; and (iii) align GEM Listing Rules with Main Board Listing Rules in terms of (A) placing to core connected persons, connected clients and existing shareholders and their close associates, and (B) the allocation of offer shares between public and placing tranches and the clawback mechanism.
- (d) Main Board requirements: to (i) increase the minimum market capitalisation requirement from \$200 million to \$500 million; (ii) increase the minimum public float value of securities proportionately from \$50 million to \$125 million (i.e. 25% of minimum market capitalisation); and (iii) extend the post-IPO lock-up requirements on controlling shareholders from one year to two years. The proposals for the Main Board under this key area would be considered independently irrespective of the outcome of the consultation of the GEM proposals in (a) to (c) above.

#### *Consultation outcome*

4. The Exchange received 100 responses to the Consultation Paper from a broad range of respondents. The responses were broadly in favour of the proposals in the Consultation Paper, with some respondents expressed reservations over the proposals to (a) re-position GEM as a stand-alone board; (b) increase the Main Board’s minimum market capitalisation requirement to \$500 million (and correspondingly the minimum public float value of securities to \$125 million); and (c) to consider the proposals for the Main Board and GEM independently.

5. Based on the responses received, the Exchange published the consultation conclusions on 15 December 2017. In essence, the Exchange decided to implement substantially all of the proposals in the consultation paper, with the exception of the proposal to extend the post-IPO lock up period on controlling shareholders of Main Board applicants from one year to two years (i.e. item (iii) of paragraph 3(d) above).

6. In coming to the above decision, the Exchange noted that

there were some comments which might not fully agree with the proposed re-positioning of GEM as a stand-alone board. However, the Exchange considered that GEM, when positioned as a “stepping stone” to the Main Board, had achieved limited success, particularly in recent years. The total number of GEM Transfers as a proportion to the total number of eligible GEM issuers decreased from 7.2% in the second half of 2008 to 2.7% in 2016. Furthermore, the Exchange maintained the view that removing the GEM Streamlined Process would be conducive to improving the overall standard of the market and therefore proceeded with pursuing the GEM re-positioning proposal.

7. The Exchange was also cognizant that there were diverse views as to whether the Main Board’s minimum market capitalisation requirement should be increased from \$200 million to \$500 million. There were views that such threshold should be increased to a value higher than \$500 million, while there were also views that the proposed increase would be too drastic. The Exchange considered the proposed increase appropriate because it broadly reflected the doubling in the average market capitalisation of listed companies from \$7.7 billion in 2004 to \$14.7 billion in 2016 and it would help distinguish the Main Board and its position as a market for larger companies. It would also enable the positioning of the Main Board closer to some of the selected overseas main markets.

8. The Exchange agreed with the respondents that it might not be necessary to extend the post-IPO lock up requirement on controlling shareholders of Main Board applicants (i.e. item (iii) of paragraph 3(d) above) given that its minimum market capital requirement was going to increase to \$500 million and the prevalence of shell activities is more pronounced in GEM than the Main Board because of Main Board issuers’ larger size. Such proposal was therefore not pursued.

9. With the above considerations, the revised GEM Listing Rules and Main Board Listing Rules came into effect on 15 February 2018.

## **Reforms Made to the Main Board and GEM Listing Rules**

### *Key changes with effect from 15 February 2018*

#### (a) GEM’s position

10. GEM has been re-positioned as a stand-alone board. The

streamlined process for GEM Transfers to the Main Board has been removed save for transitional arrangements. GEM Transfer applicants are required to appoint a sponsor to conduct due diligence and publish a listing document to list on the Main Board, in addition to meeting the Main Board eligibility requirements. To reflect the new role of GEM, the name of “Growth Enterprise Market” was changed to “GEM”.

(b) GEM admission requirements

11. The GEM admission requirements have been enhanced by increasing (i) the cashflow requirement from at least \$20 million to at least \$30 million; (ii) the minimum market capitalisation requirement from \$100 million to \$150 million; and (iii) the post-IPO lock-up requirement on controlling shareholders from one year to two years.

(c) Open Market Requirements

12. The open market requirements have been enhanced by introducing a mandatory public offering mechanism of at least 10% of the total offer size for all GEM IPOs and increasing the minimum public float value of securities from \$30 million to \$45 million.

(d) Main Board Requirements

13. Certain requirements of the Main Board have been increased to ensure that there is a clear distinction between issuers listed on GEM and the Main Board, namely (i) an increase in the minimum expected market capitalisation of Main Board applicants at the time of listing from \$200 million to \$500 million; and (ii) an increase in the minimum public float value of Main Board companies at the time of listing from \$50 million to \$125 million.

**Advice Sought**

14. The Exchange will continue to monitor the effectiveness of the above changes to the Main Board and GEM Listing Rules.

15. Members are invited to note the content of this paper.

**The Stock Exchange of Hong Kong Limited**  
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