

# Hong Kong GEM Listing Reforms



## Highlights

### GEM Listing Reforms:

- (1) introducing a new alternative eligibility test – "Market capitalisation/ revenue/ R&D test" and reducing post-IPO lock-up period on GEM issuers' controlling shareholders to 12 months
- (2) introducing a new streamlined transfer mechanism
- (3) removing mandatory quarterly reporting requirements and aligning other continuing obligations with those of the Main Board.

The Stock Exchange of Hong Kong Limited (the "Exchange") has recently published the consultation conclusions on GEM listing reforms. All proposals are adopted with minor modifications and clarifications. The rule amendments for the reforms will take effect on 1 January 2024.

### Key proposals adopted

#### (1) New alternative eligibility test and reduced post-IPO lock-up period

A new alternative eligibility test for listing on GEM is introduced in addition to the existing eligibility test. It targets high growth enterprises that are heavily engaged in research and development ("R&D") activities.

	Existing eligibility test ("cash flow test")	New alternative eligibility test ("Market capitalisation/ revenue/ R&D test")
Track record	<ul style="list-style-type: none"><li>• Trading record of at least two financial years</li><li>• Ownership continuity and control for at least the most recent financial year and up until the date of listing</li><li>• Management continuity for at least the two preceding financial years and up until the date of listing</li></ul>	
Cash flow from operating activities	<ul style="list-style-type: none"><li>• ≥ HK\$30 million in aggregate for the two preceding financial years</li></ul>	<ul style="list-style-type: none"><li>• No requirements</li></ul>
Market capitalisation	<ul style="list-style-type: none"><li>• ≥ HK\$150 million</li></ul>	<ul style="list-style-type: none"><li>• ≥ HK\$250 million</li></ul>
Revenue	<ul style="list-style-type: none"><li>• No requirements</li></ul>	<ul style="list-style-type: none"><li>• ≥ HK\$100 million in aggregate for the two most recent audited financial years, with a year-on-year growth of revenue over the two financial years</li></ul>
R&D expenditure	<ul style="list-style-type: none"><li>• No requirements</li></ul>	<ul style="list-style-type: none"><li>• ≥ HK\$30 million in aggregate for the two preceding financial years</li><li>• ≥ 15% of the total operating expenditure for each of the two preceding financial years</li></ul>

In addition, the post-IPO 24 month lock-up period imposed on controlling shareholders of GEM issuers is **reduced to 12 months** which is in line with the Main Board requirements.

## (2) New streamlined transfer mechanism

A new streamlined transfer mechanism is introduced to enable eligible GEM issuers to transfer to the Main Board without the need to: (a) appoint a sponsor to carry out due diligence, or (b) produce a "prospectus-standard" listing document. Instead the applicant has to meet other requirements as detailed in the table below.

	Existing requirements (with modification to the clean compliance record)	New streamlined transfer requirements
A. Qualifications for transfer	<p>The transfer applicant must:</p> <ul style="list-style-type: none"> <li>meet all the qualifications for listing on the Main Board;</li> </ul>	
	<ul style="list-style-type: none"> <li>have published its financial results for the <b>first full financial year</b> commencing after the date of its initial listing on GEM; and</li> </ul>	<ul style="list-style-type: none"> <li>have published its financial results for <b>three full financial years</b> as a GEM issuer with ownership continuity and control and no fundamental change in its principal business throughout the three-year financial track record period;</li> </ul>
	<ul style="list-style-type: none"> <li>Clean compliance record requirement is changed from "in the 12 months preceding the transfer application and until the commencement of dealings in its securities on the Main Board, not have been the subject of any disciplinary investigation by the Exchange in relation to a serious breach or potentially serious breach of any Listing Rules" to "(a) 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 (b) not be the subject of <b>any investigation</b> by the Exchange, 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 Listing Rules as at the date of the transfer application and the date when dealing in its securities commences on the Main Board";</li> </ul>	
	<ul style="list-style-type: none"> <li>No requirement</li> </ul>	<ul style="list-style-type: none"> <li><b>meet Daily Turnover Test</b> – have reached the minimum daily turnover threshold of HK\$50,000 on at least 50% of the trading days over the reference period<sup>1</sup>; and</li> <li><b>meet Volume Weighted Average Market Capitalisation test</b> - 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</li> </ul>

<sup>1</sup>The reference period refers to the 250 trading days immediately preceding the transfer application and until the commencement of dealings in its securities on the Main Board. For this purpose, the reference to "trading days" excludes the number of trading days on which trading of the applicant's securities were halted or suspended

## (2) New streamlined transfer mechanism (continued)

	Existing requirements	New streamlined transfer requirements
B. Sponsor appointment/ due diligence	<ul style="list-style-type: none"> <li>A sponsor must be appointed at least two months before the submission of a transfer application</li> </ul>	<ul style="list-style-type: none"> <li>No requirements</li> </ul>
C. Publication of a listing document	<ul style="list-style-type: none"> <li>To issue a "prospectus-standard" listing document</li> </ul>	<ul style="list-style-type: none"> <li>Not required to issue a "prospectus-standard" listing document</li> <li>To submit certain application documents as required by the Exchange</li> </ul>
D. Transfer announcement	<ul style="list-style-type: none"> <li>No requirements</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Such announcement should be pre-vetted by the Listing Division</li> </ul>

Also, GEM transferees to the Main Board is exempted from the Main Board initial listing fee.

A GEM issuer that cannot meet the new streamlined requirements may apply for a transfer under existing requirements.

## (3) Removal of mandatory quarterly reporting requirements and alignment of other ongoing obligations with those of Main Board

The mandatory quarterly reporting requirements for GEM issuers is removed and instead it is introduced as a recommended best practice in GEM's Corporate Governance Code. Also, GEM's periodic reporting deadlines are aligned with those for Main Board issuers as follows:

Reporting deadlines (days/months after the end of the relevant period )	GEM		Main Board
	Existing requirement	New requirement	Existing requirement
Interim results announcement	45 days	2 months	2 months
Interim report	45 days	3 months	3 months
Annual results announcement	3 months	3 months	3 months
Annual report	3 months	4 months	4 months

GEM issuer's ongoing compliance officer and compliance adviser obligations are aligned with those of the Main Board by:

- removing of the existing requirement for one of the executive directors of a GEM issuer to assume responsibility for acting as the issuer's compliance officer;
- shortening of engagement period of a GEM issuer's compliance adviser so that it ends on the date on which the issuer publishes its financial results for the first (instead of the second) full financial year commencing after the date of its initial listing; and
- removing of requirements relating to a compliance adviser's responsibilities with regards to: (a) due diligence on listing documents published, and dealing with the Exchange, in relation to certain transactions during the period of engagement of the compliance adviser; and (b) disclosure of interests of the compliance adviser for this purpose.



## Effective date

The rule amendments for the GEM listing reforms will take effect on 1 January 2024 and apply to all GEM issuers, including:

- (a) all existing issuers listed before 1 January 2024; and
- (b) all GEM listing applicants that are expected to be listed on or after 1 January 2024.

This will mean that:

- (a) quarterly report - a GEM issuer will not be required to publish a quarterly report / preliminary announcement of quarterly results if the due date for the publication of such a report / results announcement under the current GEM Listing Rules falls on a date on or after 1 January 2024;
- (b) reporting timeframes - the extended publication deadlines under the amended GEM Listing Rules will apply in respect of any financial report / results announcement for a financial year or half-year if the due date for the publication of such a report or results announcement, under the current GEM Listing Rules, falls on a date on or after 1 January 2024; and
- (c) streamlined transfer mechanism - any GEM issuer that wishes to use the streamlined transfer mechanism to transfer its listing to the Main Board will be required to submit a new transfer application on or after 1 January 2024.

Full text of the consultation conclusion: [link](#)



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