



香港工業總會

Federation of Hong Kong Industries

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MEMORANDUM TO ALL MEMBERS

Public Consultation: Establishment of a New Board and Review of Growth Enterprise Market (GEM) and Changes to GEM and Main Board Listing Rules

Hong Kong Exchanges and Clearing Limited has recently launched a public consultation on establishing a New Board and review of Growth Enterprise Market (GEM) and changes to GEM and Main Board listing rules. For details of the consultation papers, please refer to the following websites:

(1) The New Board Concept Paper

<https://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017061.pdf>

(2) The Consultation Paper on the Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules

<https://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017062.pdf>**New Board Concept Paper**

The proposals contained in the New Board Concept Paper are designed to enhance Hong Kong's ability to attract companies from New Economy sectors with one or more of the following characteristics that currently prohibit them from listing in Hong Kong:

- pre-profit companies;
- companies with non-standard governance features; and
- Mainland Chinese companies that wish to list on the Exchange as a secondary listing venue.

The New Board would be divided into the following two segments to enable the calibration of shareholder protection standards based on the level of perceived risk in each segment:

(a) New Board PREMIUM



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- This Board targets at companies that meet the existing financial and track record requirements of the Main Board but currently ineligible to list in Hong Kong because they have non-standard governance structures.
- This Board would be open to retail investor participation and, accordingly, a regulatory approach similar to that of the Main Board would apply.

(b) New Board PRO

- This Board targets at earlier stage companies that do not meet the financial or track record criteria for GEM or the Main Board.
- This Board would be open to professional investors only and would provide a “lighter touch” approach to initial listing requirements.

The New Board would also feature an accelerated delisting mechanism for companies that do not adhere to the ongoing listing requirements of the New Board, so as to help ensure the quality of the market.

Review of GEM and changes to GEM and Main Board Listing Rules

The Exchange proposes changes to its rules for GEM, which seek to address recent market and regulatory concerns regarding the quality and performance of applicants to, and listed issuers on, GEM. These include concerns about price volatility of GEM securities post-IPO, whether there is an open market for all GEM listings and the possible exploitation of GEM as a means of achieving a Main Board listing without a commensurate due diligence process at the relevant time. The proposed changes to the Main Board Listing Rules also ensure that there is a clear distinction between the Main Board and GEM.

The Exchange set out the following four areas for consideration:

- GEM’s position as a “stepping stone” to the Main Board;
- GEM’s admission requirements and delisting mechanism;
- the open market requirement for GEM companies; and
- eligibility requirements for the Main Board.

Key provisions of the proposals on which the Exchange is seeking public feedback are:

- the removal of the streamlined process for GEM transfers to the Main Board;
- transitional arrangements lasting three years for existing listed GEM companies and those that have already submitted a valid application for listing on GEM (and subsequently list), to minimise the impact on them of the removal of the streamlined GEM transfer process;
- an increase in the minimum expected market capitalisation of GEM applicants from \$100 million to \$150 million and a corresponding increase in the minimum public float value of a GEM company from \$30 million to \$45 million;



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- an increase in the minimum expected market capitalisation of Main Board applicants from \$200 million to \$500 million and a corresponding increase in the minimum public float value of a Main Board company from \$50 million to \$125 million (25 per cent of \$500 million);
- an increase in the cash flow requirement for GEM applicants from \$20 million to \$30 million;
- the introduction of a mandatory public offering requirement of at least 10 per cent of the total offer size for all GEM IPOs; and
- an extension of the post-IPO lock-up requirement on controlling shareholders from one year to two years for GEM and, where appropriate, the Main Board.

Members who have any views on the consultation documents are invited to inform the FHKI by 30 June 2017 (Fax No: 2721 3494 or email Jeffreys.tsang@fhki.org.hk). For enquiries, please contact Jeffrey Tsang at 2732 3197.

Policy, Research & Communications Division