



# Hong Kong's Listing Regime – The Way Forward

January 2018

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With overwhelming market support, The Stock Exchange of Hong Kong Limited ("**HKEx**") has concluded that Hong Kong's listing regime must be expanded to remain competitive amidst a changing global capital environment.

On 15 December 2017, it announced the [conclusions](#) to the [New Board Concept Paper](#), published on 16 June 2017. It also separately published the [conclusions](#) to the [Consultation Paper](#) on the Review of the Growth Enterprise Market ("**GEM**") and Changes to the GEM and Main Board Listing Rules.

Key takeaways from the conclusions to the New Board Concept Paper are as follows:

	Headline comments
Early stage companies	<p><b>Pre-profit / pre-revenue companies from the biotech sector to be permitted</b></p> <ul style="list-style-type: none"> <li>– Pre-profit / pre-revenue companies from the biotech sector to be permitted, such as companies in pharmaceuticals, biotechnology &amp; life sciences, healthcare equipment &amp; supplies, and healthcare technology. The activities carried out by these companies tend to be strictly regulated and with measurable developmental milestones. The HKEx will further refine the scope of "biotech" companies through market discussions. These issuers would be subject to the same regulatory standards as other Main Board applicants, except for the financial track record requirement.</li> <li>– No "lighter touch" approach. Pre-revenue companies listing under the new biotech chapter would be required to have a minimum expected market capitalization of HK\$1.5 billion.</li> <li>– Companies must have at least one product which has proceeded beyond concept stage and will be required to provide enhanced disclosures.</li> <li>– Investment from at least one sophisticated investor also required.</li> <li>– The cornerstone investors' shares shall not be counted towards minimum public float to ensure post-listing liquidity.</li> </ul>
Companies with WVR structures	<p><b>Innovative and high growth companies with WVR structures to be allowed, subject to additional disclosures and safeguards</b></p> <ul style="list-style-type: none"> <li>– Applicants must be well-established and have a minimum expected market capitalization of at least HK\$10 billion. If an applicant has an expected market capitalization of below HK\$40 billion, it would need to meet a higher revenue test of at least HK\$1 billion in the full financial year before listing.</li> <li>– The HKEx will publish a guidance letter setting out factors that will be taken into account when assessing eligibility and suitability. This includes the requirement that the applicant must be an innovative company and be able to clearly demonstrate other characteristics to justify having a WVR structure.</li> </ul>

	Headline comments
<b>Secondary listings</b>	<ul style="list-style-type: none"> <li>– New secondary listing route to be created to attract established issuers from emerging and innovative sectors already listed on the New York Stock Exchange, NASDAQ Stock Market or the "premium listing" segment of the London Stock Exchange's Main Market, and must have a good compliance record.</li> <li>– Issuers must have an expected market capitalization at the time of secondary listing in Hong Kong of at least HK\$10 billion. A secondary listing applicant (i) with a WVR structure and/or (ii) with a "centre of gravity" in Greater China will also be required to have a minimum revenue of HK\$1 billion in its most recent audited financial year if it has an expected market capitalization of less than HK\$40 billion at the time of secondary listing in Hong Kong.</li> <li>– Removal of the ban on "centre of gravity" test so as to permit companies in the emerging and innovative sectors with a centre of gravity in the Greater China region to secondary list in Hong Kong.</li> </ul>

There will be two new chapters incorporated into the Main Board Listing Rules to allow (a) biotech issuers that are pre-profit/pre-revenue, and (b) innovative and high growth issuers that have WVR structures to list, subject to appropriate disclosures and safeguards. There will also be proposed modifications to the Listing Rules in relation to overseas companies to create the new secondary listing route.

The proposals will be further refined through discussions with stakeholders, to start immediately, with a consultation on the proposed Rule amendments to follow in Q1 of 2018.

## GEM consultation conclusions and changes to GEM and Main Board Listing Rules

The HKEx has [concluded](#) that a clear distinction will be drawn between issuers listed on GEM and the Main Board. It will be implementing substantially all<sup>1</sup> of the proposals in its consultation to (i) closer align the GEM and Main Board listing requirements, and (ii) transition GEM to be a standalone market for small and mid-sized companies instead of a stepping stone to the Main Board.

The following key changes will take effect on 15 February 2018 ("**Effective Date**"):

- The names "Growth Enterprise Market" and 「創業板」 will be changed to "GEM".
- Removal of the streamlined process for GEM transfers to the Main Board.
- Introduction of a mandatory sponsor requirement for transfer of listing from GEM to the Main Board, and a sponsor must be appointed at least two months before the submission of a listing application.
- Increases in:

<sup>1</sup> With the exception of the proposals regarding (i) the track record period requirement prior to a GEM transfer, and (ii) extending the post-IPO lock up period for controlling shareholders of Main Board listing applicants.

- minimum expected market capitalization of GEM applicants at the time of listing from HK\$100 million to HK\$150 million and a corresponding increase in the minimum public float value of GEM companies at the time of listing from HK\$30 million to HK\$45 million;
  - minimum expected market capitalization of Main Board applicants at the time of listing from HK\$200 million to HK\$500 million and a corresponding increase in the minimum public float value of Main Board companies at the time of listing from HK\$50 million to HK\$125 million; and
  - minimum cash flow requirement for GEM applicants from HK\$20 million to HK\$30 million.
- Introduction of a mandatory public offering requirement of at least 10 per cent of the total offer size for all GEM IPOs.
  - Extension of the post-IPO lock-up requirement on controlling shareholders from one year to two years for GEM.

## **Implementation and transitional arrangements**

All listing applications received by the HKEx before the Effective Date will be processed according to the GEM or Main Board rules in force, with only one renewal of such applications permitted thereafter. Applications received on or after the Effective Date will be processed according to the amended GEM or Main Board Listing Rules, as the case may be.

All GEM transfer applications submitted before the Effective Date that have not lapsed, been rejected or returned as at the Effective Date will continue to be processed under the current streamlined process and their eligibility for the Main Board will be assessed in accordance with the Main Board Listing Rules currently in force, with only one renewal of such applications permitted thereafter.

For certain stakeholders who have chosen to list on GEM as a stepping stone to the Main Board, transitional arrangements (which provide for less stringent GEM transfer requirements) are in place for a grace period of three years from the Effective Date.

## **Comment**

This is one of the biggest overhauls to the listing regime in recent years as Hong Kong seeks to regain its leading position in the world's IPO markets. Compared to the market's negative reaction just three years ago on the idea of companies with WVR structures or pre-revenue companies, the market feedback and proposals demonstrate that Hong Kong is embracing change to maintain its competitive edge as a world leading listing venue.

The proposals will help Hong Kong evolve and move away from its reliance on more traditional companies, particularly given the huge investor interest in recent technology listings. The proposals will also put Hong Kong in direct competition with the US, which has allowed WVRs for some time. The HKEx worked quickly on these two consultations and closely involved the Securities and Futures Commission in discussions to forge a way forward in line with market sentiment. While further guidance and clarification are pending, it is clearly a step in the right direction and maintains Hong Kong as a regional forerunner in our local bourse's competitiveness.

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