

Whether the remaining group could meet the minimum market capitalisation requirement under Main Board Rule 8.09(2)

Parties

- **Company A** – a Main Board issuer
- **Newco** – Company A's subsidiary proposing to seek a separate listing on the Exchange
- **Group** – Company A and its subsidiaries
- **Remaining Group** – the Group excluding Newco

Facts

1. The Group operated two major businesses, being the development and sales of residential properties (**Residential Property Business**) and investment in commercial and industrial properties.
2. Company A proposed to inject its Residential Property Business into Newco and seek a separate listing of Newco on the Exchange. After the proposed spin-off, Newco would continue to be Company A's subsidiary. The Remaining Group would continue its business in investment of commercial and industrial properties.
3. In recent years, Company A's shares had been traded at a significant discount to the net asset value of the Group, and its market capitalisation was below HK\$500 million. As the Residential Property Business represented a material part of the Group's businesses, the Exchange queried whether the Remaining Group could satisfy independently the minimum market capitalisation requirement of HK\$500 million under Rule 8.09(2) as required by Paragraph 3(c) of Practice Note 15.
4. Company A submitted that under Paragraph 3(c) of Practice Note 15, "*the Parent itself would be required to retain, in addition to its interest in Newco, sufficient assets and operations of its own, excluding its interest in Newco, to satisfy independently the requirements of Chapter 8 of the Exchange Listing Rules ...*" (emphasis added). The reference to "sufficient assets and operations" inferred that the Parent was only required to satisfy the listing requirements of Chapter 8 with regard to its assets and operations after the spin-off. The minimum market capitalisation requirement under Rule 8.09(2) did not apply to the Remaining Group.
5. Company A also submitted that even if Rule 8.09(2) applied to the Remaining Group, it would be able to satisfy the requirement. In this regard, Company A submitted an independent valuation report which indicated that the valuation, using the asset-based approach, was substantially higher than HK\$500 million.

Relevant Listing Rules

6. Paragraph 3(c) of Practice Note 15 states that:-

“The Listing Committee must be satisfied that, after the listing of Newco, the Parent would retain a sufficient level of operations and sufficient assets to support its separate listing status. In particular, it would not be acceptable to the Listing Committee that one business (Newco’s) supported two listing statuses (the Parent’s and Newco’s). In other words, the Parent itself would be required to retain, in addition to its interest in Newco, sufficient assets and operations of its own, excluding its interest in Newco, to satisfy independently the requirements of Chapter 8 of the Exchange Listing Rules...”

7. Rule 8.09(2) provides that: -

“The expected market capitalisation of a new applicant at the time of listing must be at least HK\$500,000,000 which shall be calculated on the basis of all issued shares (including the class of securities for which listing is sought and such other class(es) of securities, if any, that are either unlisted or listed on other regulated market(s)) of the new applicant at the time of listing.”

[\(Rule 8.09\(2\) was amended on 11 June 2024. See Note below.\)](#)

Analysis

Whether Rule 8.09(2) applied to the Remaining Group in a spin-off case

8. The purpose of Paragraph 3(c) of Practice Note 15 is to ensure that one business will not support two listing statuses. Therefore, the Parent itself (i.e. the remaining group) must carry on a business with sufficient operations and assets to satisfy independently all the listing requirements under Chapter 8 of the Rules, including the minimum market capitalisation requirement under Rule 8.09(2).

Whether the Remaining Group could meet Rule 8.09(2)

9. Company A submitted that the Remaining Group would be able to meet Rule 8.09(2) on the basis of an independent valuation of the underlying business of the Remaining Group. However, the Exchange noted that the shares of Company A had been traded at a significant discount to the net asset value of the Group. The valuation submitted by Company A had not taken into account this discount to net asset value. Furthermore, the market capitalisation of Company A had been lower than HK\$500 million before the proposed spin-off, and it was expected to decrease if the Residential Property Business (being a material part of the existing businesses) was excluded from the Group. The Exchange considered that a valuation of an entity’s underlying business or assets does not necessarily reflect the entity’s market capitalisation. The Exchange was not satisfied that the Remaining Group could meet the minimum market capitalisation requirement of HK\$500 million.

Conclusion

10. The proposed spin-off did not satisfy Paragraph 3(c) of Practice Note 15 as the Remaining Group could not meet the minimum market capitalisation requirement under Rule 8.09(2).

Note: Rule 8.09(2) was amended on 11 June 2024 to exclude treasury shares in the calculation of issued shares for the purpose of determining the expected market capitalisation of a new applicant. The Rule amendments would not change the analysis and conclusion in this case.