

## 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 was principally engaged in the provision of software, platforms and related support services (**Software Business**), IT solutions services (**Solutions Business**), and investing activities including property investment and treasury investment in securities.
2. Company A proposed to inject its Software Business into Newco and seek a separate listing of Newco on the Exchange. After the proposed spin-off, Newco would continue to be a subsidiary of Company A.
3. The Remaining Group would continue the Solutions Business and investing activities.
  - The Solutions Business was the core business of the Remaining Group, contributing approximately 98% of the total revenue of the Remaining Group in the latest financial year.
  - The Remaining Group's investing activities generated minimal income during the latest three financial years. Its investment portfolio comprised certain investment properties (**Investment Properties**) and listed securities and other debt investments (**Financial Assets**), with an aggregated value of about HK\$90 million.
  - The Remaining Group also retained cash reserves (excluding the cash required for operating the Solutions Business) of about HK\$220 million (**Cash Surplus**), representing more than 60% of the Remaining Group's total assets as at the latest year end date. Company A submitted that the Group had maintained a substantial cash reserve for many years. The Cash Surplus would be retained by the Remaining Group and be applied towards potential mergers and acquisitions and other new business opportunities after the proposed spin-off.

4. The Software Business represented the majority part of the Group's business. The Exchange queried whether the Remaining Group could satisfy independently the minimum market capitalisation requirement of HK\$500 million under Rule 8.09(2), having noted that the market capitalisation of Company A was in the range of HK\$700 million to HK\$1 billion in the last 12 months.
5. Company A submitted that the Remaining Group could meet the market capitalisation requirement, relying on an independent valuation of the Remaining Group of about HK\$600 million prepared using sum-of-parts approach comprising:
  - (a) a valuation of the Solutions Business of about HK\$280 million using the market approach with reference to P/E and EV/EBIT multiples of comparable companies; and
  - (b) the fair value of the non-operating assets (including the Cash Surplus, the Investment Properties and the Financial Assets) of HK\$320 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

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).
9. Based on the above, an issuer proposing a spin-off must demonstrate that the remaining group retains a substantive business to support a market capitalisation of at least HK\$500 million as required under Rule 8.09(2). Assets that are not used to support its business operations are disregarded.

10. In this case, the Remaining Group would carry on the Solution Business and retain a number of non-operating assets after the spin-off. Company A submitted that the Remaining Group could meet Rule 8.09(2) on the basis of a valuation of about HK\$600 million for these business and assets. The Exchange disagreed because the non-operating assets (with a valuation of about HK\$320 million) were not used to support the business operations of the Remaining Group and therefore should be disregarded when considering the market capitalisation of the Remaining Group. The Exchange also noted that the Solution Business (being the core business of the Remaining Group) had an estimated value of HK\$280 million, which was substantially lower than the minimum market capitalisation requirement of HK\$500 million. The Exchange did not consider that the Remaining Group could meet Rule 8.09(2).

## Conclusion

11. 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.*