



How the New Economy is reshaping the Hong Kong market

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for New Economy companies**

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The Launch of Hang Seng TECH Index



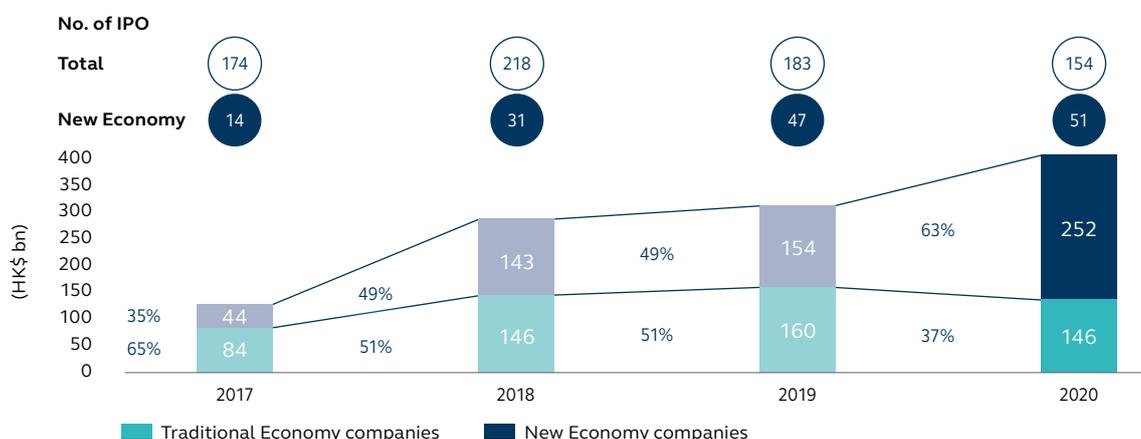
Welcome to the third edition of IPO Express!

Hong Kong Exchanges and Clearing (HKEX) welcomed 154 companies to our market in 2020, setting a new fundraising record of \$398 billion¹ since 2010. More than 60% of total fundraising during the year was done by New Economy companies. In this issue of IPO Express we explore how the New Economy landscape is developing in Hong Kong with guest insights from **Xiaomi** and **Hang Seng Indexes**.

Hong Kong: A global financial market for New Economy companies

The introduction of new listing chapters in 2018 changed Hong Kong’s capital market, turning it into a New Economy fundraising centre.

IPO funds raised by New Economy companies

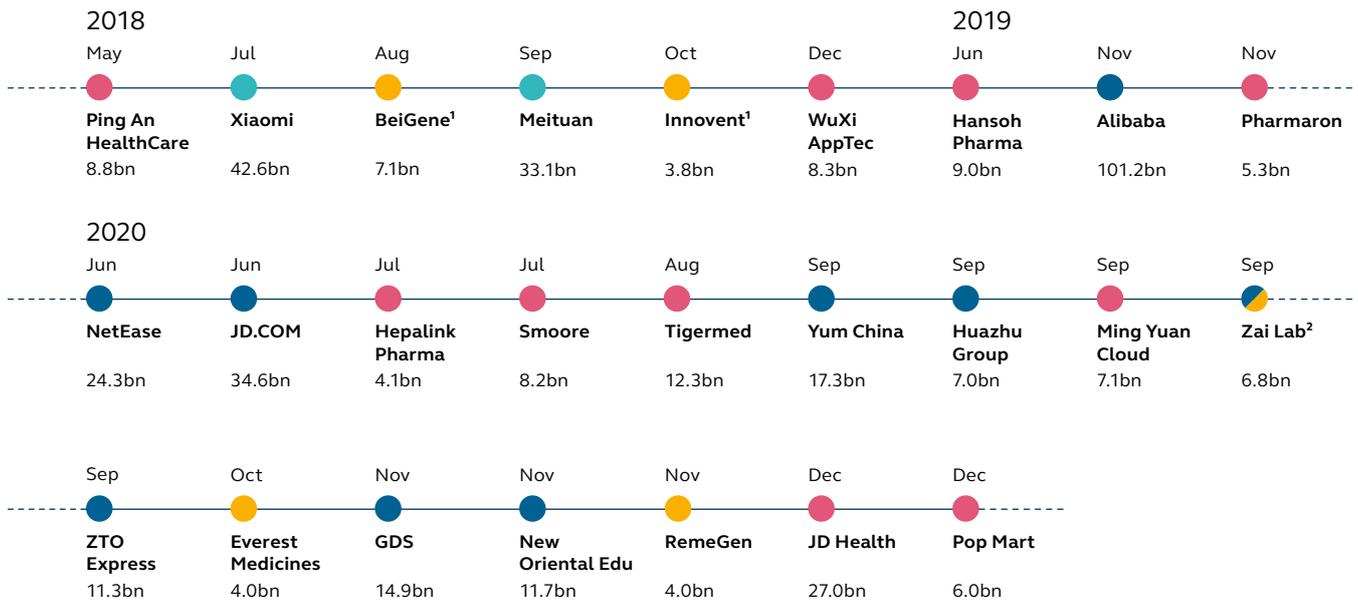


Data sourced from HKEX, as of 31 Dec 2020.

Note 1: Data source: HKEX, as of 31 Dec 2020. Total no. of IPO includes transfer of listings from GEM to Main Board and listing by introduction; and excludes investment vehicle(s) pursuant to Chapters 20 and 21 of the Main Board Listing Rules and very substantial acquisition(s) treated as reverse takeover(s) pursuant to Main Board Listing Rule 14.06(6)/GEM Listing Rule 19.06(6).



Top 25 New Economy public offerings in Hong Kong since listing reform



IPO Fundraising (HK\$)

- Chapter 8A Companies with Weighted Voting Rights
- Chapter 19C Greater China Secondary Listed Companies
- Chapter 18A Pre-revenue Biotech Companies
- General Listing

Data sourced from HKEX, as of 31 Dec 2020.

Note:

1: BeiGene and Innovent have been granted approval to transition to general listing. The companies were initially listed under Ch18A of the listing rules.

2: Zai Lab was listed under both Ch18A and Ch19C of the listing rules.

New Economy listings accounted for 29% of total market capitalisation in Hong Kong as of 31 December 2020. The growth in such listings is creating a robust ecosystem of bankers, lawyers, investment managers, and analysts focused on the sector. The investor and liquidity profile of Hong Kong’s capital market is a great fit for New Economy companies with an Asian business focus and global aspirations. Hong Kong has become a premier hub for New Economy financing as it attracts international investors and the world’s leading new companies in search of international exposure.



Key benefits of a Hong Kong IPO

Strong international investor base with 50% domiciled outside of Hong Kong

Abundant liquidity, 48.6% ADT increase in 2020

Sound regulatory and legal framework

Connectivity to Mainland onshore market through the Connect Programme, contributing about 10% of ADT in Hong Kong market

Robust products and ecosystem, enhanced by the launch of MSCI product suite



Insight: Grasping New Opportunities in Stock Connect

Xiaomi was the first New Economy company with a weighted voting rights (WVR) structure listed under the new listing rules when it came to the market on 9 July 2018. As a New Economy pioneer, Xiaomi continues to enhance its connection with global investors. IPO Express interviewed Wang Xiang, the President of Xiaomi Corporation, for his insights into the Hong Kong IPO experience.



Wang Xiang
President of
Xiaomi Corporation

The Hang Seng Index (HSI) and Hang Seng Tech Index (HSTECH) recently added four New Economy giants, including Xiaomi, as constituents. What do the new changes mean for Xiaomi?

Wang: The inclusion of Xiaomi as a constituent stock in the HSI and HSTECH represents a significant recognition of Xiaomi's profile among institutional investors, and it marks a milestone for us. Hang Seng indexes are joining a global trend in including companies with WVR.

We will continue to build amazing products at honest prices and let everyone in the world enjoy a better life through innovative technology, while creating value for our investors. The inclusion of Xiaomi in the HSI and HSTECH has increased investor confidence and market recognition of Xiaomi.

Xiaomi has been included in Stock Connect since 2019. How has this impacted Xiaomi's investor composition? What are the differences between the investors in Mainland China and Hong Kong capital markets?

Wang: The launch of Southbound Stock Connect enables Mainland investors to safely invest in more Hong Kong-listed New Economy companies under the framework of controllable risks and mutual supervision. This makes our investor base more diverse.

Hong Kong is a leading international financial centre, so we are very grateful for the recognition and support of Hong Kong investors. Hong Kong investors are familiar with blue-chip stocks that offer solid performance, and now they're learning to appreciate the more dynamic performance and value creation by New Economy companies such as Xiaomi.

Xiaomi was the in the first group of New Economy companies with a WVR structure listed under the new listing rules introduced in 2018. What role do tech and innovation companies play in Hong Kong's capital market ecosystem after two years of development? What are the new opportunities and challenges for Hong Kong's capital market?

Wang: The inclusion of WVR companies in the Hong Kong stock market is encouraging for fast-growing New Economy companies and is conducive to the development of the mutual market access programme. The change will attract more high quality technology companies from Mainland China to list in Hong Kong. We appreciate HKEX's contributions to capital market development.

The inclusion of WVR companies in the Southbound Stock Connect scheme has further promoted the interconnectivity of capital markets. New Economy companies like Xiaomi are gradually being recognised and accepted by Hong Kong stock market investors and this is reflected in valuations.

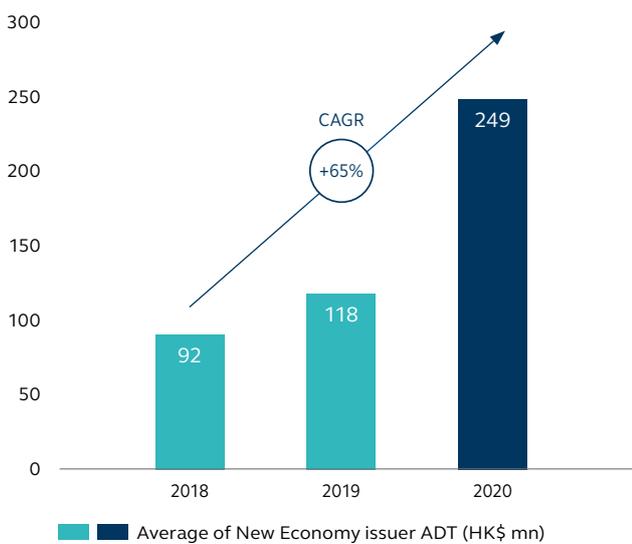
“ The changing times have brought opportunities together with challenges. At Xiaomi, we will continue to adhere to our highly efficient business model, focus on creating outstanding performance, let everyone in the world enjoy a better life through innovative technology, and add vitality to the Hong Kong stock market. Both Xiaomi and the Hong Kong capital market will grow together and mutually benefit one another. ”

Wang Xiang
President of Xiaomi Corporation



Post IPO secondary market performance

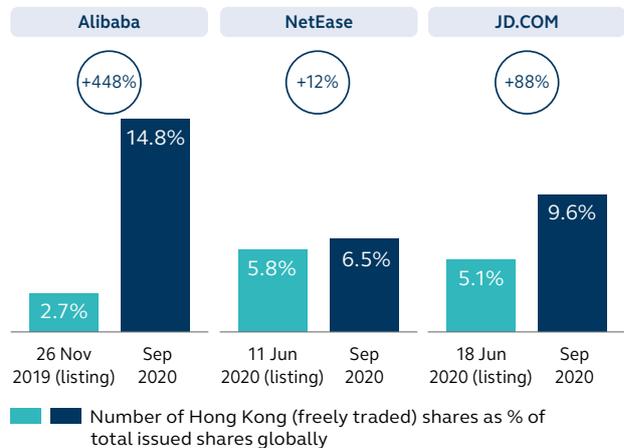
Hong Kong enjoys a deep and liquid market. The average daily turnover of 2020 was **\$129.5 billion**, up **48.6%** from 2019. Moreover, New Economy issuers have attracted rapidly growing interest from all investor groups. As of 31 December 2020, the average of New Economy Issuer ADT increased to **\$249 million**, up from \$92 million in 2018, demonstrating a **CAGR of 65%**.



Data Source: Wind; As of 31 Dec 2020.

Following Alibaba's secondary listing, we at HKEX have observed a clear trend of US ADR conversion to Hong Kong shares. By end of September 2020, the number of Alibaba's freely traded shares in Hong Kong had increased **448%** since listing. Turnover of Alibaba shares on HKEX reached **19.1%** of its global turnover, even though the company only issued **2.7%** of its free-floating shares in Hong Kong. NetEase, JD.COM and other Hong Kong secondary listing issuers have witnessed similar trends. Hong Kong bridges these overseas issuers to their "home market" and a new investor base, which has also helped boost their overall global trading volumes.

ADR conversion to HK shares



Data Source: HKEX; As of 30 Sep 2020.



The Revamp of HSI

The 51-year-old HSI in May 2020 began to allow WVR companies and secondary-listed companies to be included as constituents as the New Economy sector rose to greater prominence in Hong Kong. Three Chinese tech companies have joined the benchmark index since September 2020.

The revamp of Hang Seng Index for New Economy companies 2018 - 2020

Hang Seng Composite Index

- In 2018, Ch8A primary and Ch19C secondary listed Greater China WVR companies became eligible for inclusion in the HSCI
- In 2020, Ch18A pre-revenue biotech companies became eligible for inclusion in HSCI

Hang Seng Index

- In 2020, Ch19C Greater China secondary listed companies and Ch8A WVR companies became eligible for inclusion in the HSI and HSCEI universes

Hang Seng China Enterprise Index

Inclusion of issuers (Listed through the 3 new chapters)

- + Two Ch8A primary listed companies with WVR¹
- + Eight Ch19C Greater China secondary listed companies²
- + Nine Ch18A pre-revenue biotech companies¹

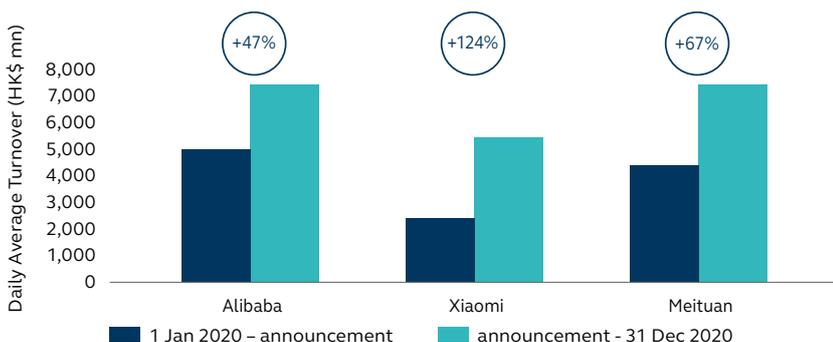
+ Alibaba + Xiaomi + Meituan

+ Alibaba + Meituan + NetEase
+ Xiaomi + JD.COM

Data source: Hang Seng Indexes Company Limited, as of 31 Dec 2020.

Note 1: Included in Stock Connect. Two of the nine companies have been granted approval to transition to general listing. The companies were initially listed under Ch18A of the listing rules.

Note 2: Three of the eight Greater China secondary listed companies also used WVR structures.



This positive market sentiment is reflected in the increased trading turnover of shares in companies following their inclusion in the HSI.

Data Source: Wind; As of 31 Dec 2020.

Note: Announcement for Alibaba and Xiaomi inclusion was made on 14 Aug 2020; Meituan's inclusion in Hang Seng Index announcement was made on 13 Nov 2020

HSTECH introduced to track New Economy players

Hang Seng Indexes Company Limited launched the HSTECH in July 2020 to capture the fast-growing interest in the New Economy theme, which has outperformed other sector-focused indexes.

Index performance



2020 Performance

- HS Tech Index +78.7%
- HS HK-Listed Biotech Index +51.6%
- HSI -3.4%

HSCI industrial indexes

- Property & Construction -15.9%
- Financials -6.9%
- Consumer Staple +28.0%
- Consumer Discretionary +38.2%

Data Source: Hang Seng Indexes Company Limited; As of 31 Dec 2020.

Note: all information for an index prior to its launch date is back-tested, back-tested performance reflects hypothetical historical performance

HKEX created the first exchange-traded derivatives contracts to track the HSTECH, providing investors with a new tool to manage and leverage their exposure to Hong Kong-listed technology companies.



In Focus: The Launch of Hang Seng TECH Index

As the New Economy sector rises to greater prominence in the Hong Kong financial market, Hang Seng Indexes Company has launched a new index, the Hang Seng TECH Index (HSTECH), which has attracted considerable market attention. We interviewed Daniel Wong, Director and Head of Research and Analytics, Hang Seng Indexes Company Limited, to learn more about the strategy behind the new index, and its impact on the market.



Daniel Wong
Director & Head of
Research and Analytics,
Hang Seng Indexes
Company Limited

Why did the Hang Seng Indexes Company launch the new tech index? And why now?

Wong: Our decision to develop the Hang Seng TECH Index (HSTECH) was a response to the fast-growing interest in this investment theme among investors. New Economy enterprises are accounting for a larger proportion of the market both in terms of market value and trading volume due to the rapid growth of activity in innovation-focused and technology sectors and the increasing number of technology companies listed in Hong Kong. A key objective of the index is to reflect the performance of leading technology and innovation-led companies listed in Hong Kong. The target constituent stocks also include ‘homecoming’ - Mainland Chinese companies and unicorns that plan to list in Hong Kong, as well as medium- and large-sized companies that have integrated technology into their business operations and are leveraging this to deliver positive changes to our daily lives. From the launch of the HSTECH on 27 July 2020 till the end of 2020, it had risen by 25.1% and outperformed other major indexes by between 1% to 18%.

What has the reaction been from investors, especially the managers of index funds? Has the new index attracted a lot of capital?

Wong: We are delighted to see that many issuers have already launched products that are linked to the HSTECH, including ETFs, warrants, CBBCs, and futures and options. Relative to our other indexes, this index has attracted a comprehensive set of related investment products in a fairly short period of time. As of 31 December 2020, assets under management in products passively tracking the HSTECH had reached more than HK\$11 billion. In addition to working with issuers in the Hong Kong market, we are also in active discussions with issuers in overseas markets who are interested in licensing the HSTECH to issue index-linked products. We expect the HSTECH to join the Hang Seng Index and the Hang Seng China Enterprises Index as one of our flagship indexes.

What is your next step to better reflect market interests on New Economy sector given the significant development and the evolution of the Hong Kong stock market?

Wong: The HSTECH is designed to select innovative companies that are operating in industries that are related to daily life and that have a strong technology theme. As the definition of technology continues to evolve, so too will our indexes, and we will closely monitor market developments to enhance and expand our index portfolio. Following the launch of the HSTECH futures and options by HKEX, we recently introduced the HSTECH Short Index and HSTECH 2x Leveraged Index. These two derived indexes not only enrich the index suite of the HSTECH, but also themselves serve as bases for exchange-traded products and derivatives.

New indexes by HSI

Hang Seng Shanghai-Shenzhen-Hong Kong
NextGen Communications Index

Hang Seng Shanghai-Shenzhen-Hong Kong
E-Commerce Index

Hang Seng Shanghai-Shenzhen-Hong Kong
Innovative Drug Select 50 Index

Hang Seng Stock Connect Biotech 50 Index





Look ahead to 2021

Stay tuned for a series of upcoming IPO related events featuring New Economy sectors, such as the Private Equity Investment Conference, Southeast Asia Forum and Biotech Summit.

HKEX has also launched a concept paper to seek market views on FINI, a new platform that modernises the Hong Kong IPO settlement process to make our market more efficient, robust and equipped for a digitalised future. HKEX continues to embrace new technologies and opportunities in order to remain competitive and forward thinking.

A sincere thank you from IPO Express and the HKEX Global Issuer Services Team. We wish everyone a happy and prosperous 2021!

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it is a memorable experience!

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