



3rd Anniversary of Listing Reform

**Fuelling a new growth story for
Biotech and New Economy companies**

**In Focus:
Attracting the world's tech leaders**

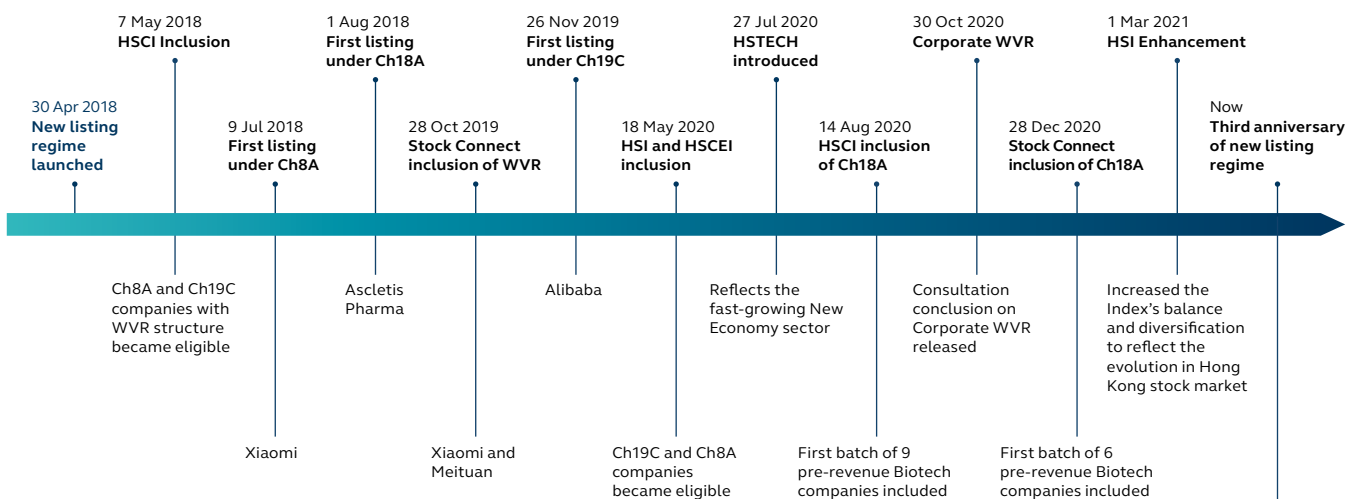
**Insight:
New era brought by the new chapters**

Fuelling a new growth story for Biotech and New Economy companies

In 2018, HKEX rolled out three new chapters to the Listing Rules to allow pre-revenue Biotech companies, New Economy companies with weighted voting rights, and qualified overseas listed New Economy companies to raise capital via secondary listings in Hong Kong. April 2021 marked the third anniversary of the listing reform. In this issue of IPO Express, we share how the reform has succeeded in bringing enhanced liquidity, vibrancy and diversity to Hong Kong’s capital markets.

Listing reform revitalises Hong Kong’s capital markets

The 2018 Listing Reforms not only brought about change themselves, but acted as a catalyst for a number of notable enhancements to Hong Kong’s broader capital markets’ ecosystem. These enhancements have added further choice, liquidity and accessibility to Asia’s largest and most international capital markets.



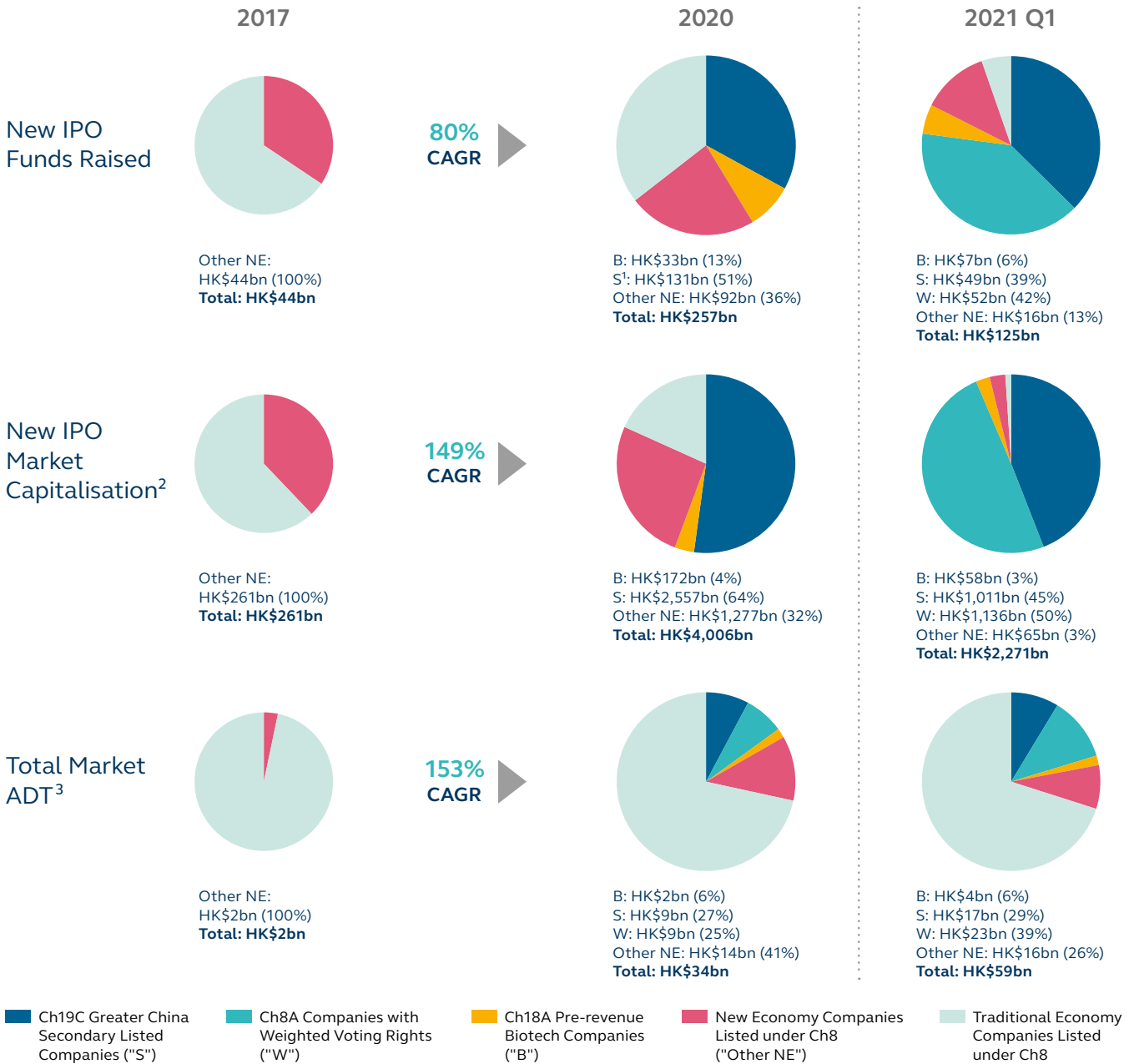
As at 31 March 2021,

- **146** New Economy issuers have listed since reform of the listing regime, raising a total of **HK\$682 bn**, and accounting for **61%** of IPO funds raised in Hong Kong
- **27%** of the Hong Kong total market capitalisation was attributed to New Economy issuers, with a total of **HK\$14,447 bn**
- **21%** of turnover in the cash equities market in 2020 now derived from New Economy stocks



Hong Kong New Economy IPOs transforming the market

A continued increase in New Economy listings in terms of IPO fundraising and market capitalisation has diversified the composition of listed companies in the Hong Kong market by increasing the share of New Economy sectors. The changing landscape makes Hong Kong New Economy listings more attractive to global investors with a demonstrated **153% CAGR** of total market ADT from 2017 to 2020.



Source: HKEX and Bloomberg, as of 31 Mar 2021.

Notes:

1. Zai Lab's listing in 2020 applied both Ch18A and Ch19C of the listing rules. It's included under Ch19C to avoid duplication.
2. Market capitalisation as of 31 Mar 2021.
3. Include all listed companies.

New Economy companies have become the fastest growing sector of Hong Kong's IPO market. Hong Kong has also swiftly become **Asia's largest and the world's second largest Biotech fundraising hub**. As of 31 March 2021, **31** pre-revenue Biotech companies were listed under Chapter 18A, together with another **32** issuers from the wider healthcare industry, raising a total of **HK\$197 billion**. HKEX has also welcomed **13** secondary homecoming listings from Chinese companies. Despite their relatively short listing history and limited offering size in Hong Kong, Hong Kong trading volumes of these stocks have quickly accounted for a sizeable proportion of worldwide stock volumes.



One sign of this growth was FTSE’s replacement, in March 2021, of the US listed Alibaba ADR (BABA.US) ticker with the Hong Kong listed entity (9988.HK) stock code within their Global Equity Index Series (GEIS). As a result, the market witnessed a substantial further increase in freely traded shares in Hong Kong.

Trading market share for the first three Ch19C issuers by turnover – YTD 2021

	SEHK	Primary listed US Exchange	Other US Exchanges
Alibaba	18.3%	15.2%	66.5%
NetEase	27.3%	29.0%	43.7%
JD.COM	20.8%	26.0%	53.2%

% of Hong Kong freely traded shareholding increased since Hong Kong listing for the first three Ch19C issuers

Alibaba
+726%

NetEase
+90%

JD.COM
+178%

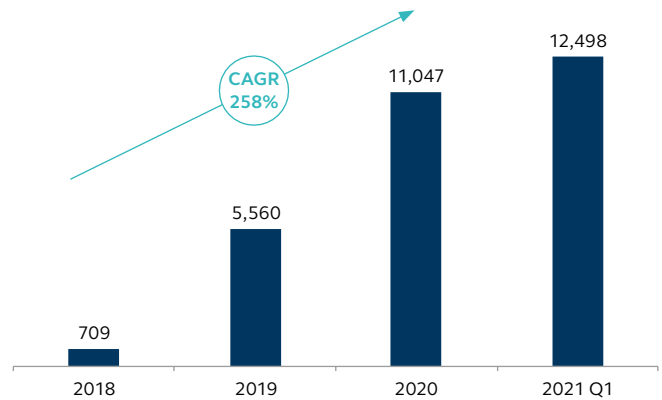
Source: HKEX, as of 31 Mar 2021. The number of Hong Kong freely traded shares as % of total issued shares globally for Alibaba, NetEase and JD.COM on IPO date were 2.5%, 4.5% and 5.1%, respectively.

Issuers and investors alike are benefitting from these changes in Hong Kong’s market. Hong Kong offers a **strong regulatory framework, wide range of products and services, high liquidity with depth and diversification, and ongoing enhancements on policies and processes**, all of which will continue to shape the listing and investment landscape.

In Focus: Attracting the world's tech leaders

Technology, Media & Telecom (TMT) is a key component of the New Economy sector and the new listing regime has attracted an increasing number of TMT companies to Hong Kong. This has included **eight** Chinese companies listed in the US that have now dual-listed in Hong Kong. Hong Kong is now hosting a vibrant and diversified market for over **300** TMT companies, with a **CAGR of 258%** in total market capitalisation in the past three years.

Total market capitalisation of TMT companies listed since 2018 (HK \$bn)



Data source from HKEX, Bloomberg, as of 31 Mar 2021. TMT sector grouping is based on relevancy of Global Industry Classification Standard (GICS)'s sectors and industries.



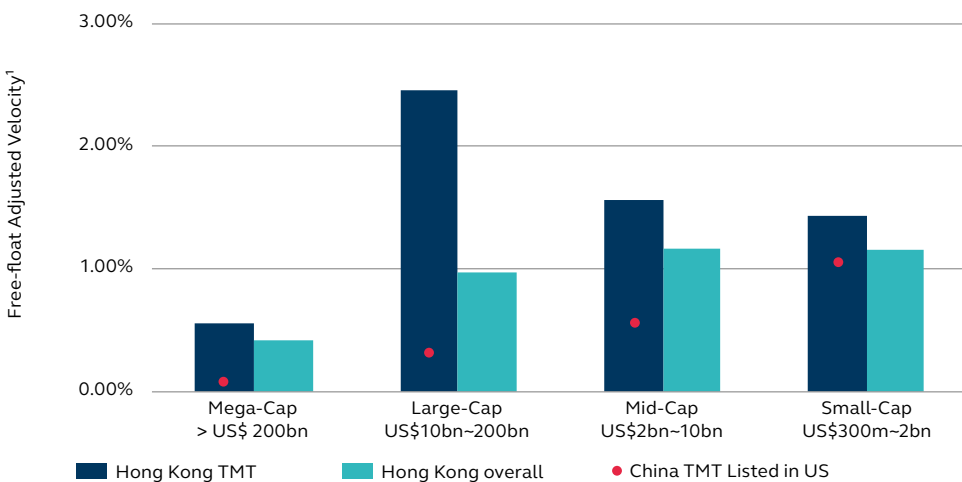
Hong Kong continues to demonstrate its competitiveness by attracting innovative companies from a variety of TMT subsectors. Interactive Media & Entertainment Services (44% of total TMT market capitalisation) together with Internet & Direct Marketing Retail (41% of total TMT market capitalisation) are the largest two TMT subsectors, but growing diversification from other subsectors such as Electronic Hardware, Semiconductor, and Software, further broadens the TMT asset base in Hong Kong.

Diverse sector - Top 3 issuers by market capitalisation (MC)

<p>TMT</p> <p>Technology, Media & Telecom subsectors:</p>	<p>Interactive Media & Entertainment</p> <p>No. of Issuers: 44 Total MC: HK\$ 8,683bn</p> <ul style="list-style-type: none"> • Tencent • Kuaishou - W • Baidu - SW 	<p>Internet & Direct Marketing Retail</p> <p>No. of Issuers: 15 Total MC: HK\$ 8,076bn</p> <ul style="list-style-type: none"> • Alibaba - SW • Meituan - W • JD.COM - SW 	<p>Electronic Hardware</p> <p>No. of Issuers: 103 Total MC: HK\$ 1,422bn</p> <ul style="list-style-type: none"> • Xiaomi - W • Sunny Optical • Lenovo
<p>Semiconductors</p> <p>No. of Issuers: 26 Total MC: HK\$ 481bn</p> <ul style="list-style-type: none"> • SMIC • Xinyi Solar • Hua Hong Semiconductor 	<p>Software</p> <p>No. of Issuers: 33 Total MC: HK\$ 344bn</p> <ul style="list-style-type: none"> • Kingdee • Kingsoft • Ming Yuan Cloud 	<p>Technology & Data Services</p> <p>No. of Issuers: 60 Total MC: HK\$ 256bn</p> <ul style="list-style-type: none"> • GDS - SW • Chinasoft • Yeahka 	<p>Interactive Advertising</p> <p>No. of Issuers: 29 Total MC: HK\$ 36bn</p> <ul style="list-style-type: none"> • Mobvista • Joy Spreader • BC Technology

Data source from HKEX and Bloomberg, as of 31 Mar 2021. TMT sector grouping is based on relevancy of Global Industry Classification Standard (GICS)'s sectors and industries.

Hong Kong's TMT sector has some interesting characteristics. For example, TMT stocks in Hong Kong enjoy **better turnover velocity** than the Hong Kong market overall. The trading of Hong Kong-listed TMT companies with a market capitalisation above US\$300 million is generally **more active** than their peers listed overseas.



Data source from Refinitiv, for period from 1 Jan 2020 to 31 Mar 2021.

Note 1: Turnover velocity is based on the trading volume between 1 Jan 2020 - 31 Mar 2021, and adjusted for tradable market value (e.g. for Alibaba, only tradable shares in the Hong Kong market are taken into account).



Insight: New era brought by the new chapters

In 2018, HKEX launched three new chapters in its listing rules, fuelling a growth story for Asia's global capital markets leader. IPO Express caught up with Bonnie Chan, HKEX's Head of Listing, for her insights into the continued evolution sparked by the new chapters.



Bonnie Chan
Head of Listing, HKEX

Have there been any surprises brought about by the new chapters in the past three years?

Bonnie: Three years ago when we first launched the new listing chapters, we knew it was the right thing to do, but the pace of new applications coming in, particularly for the 18A listings, has pleasantly surprised us. The global pandemic and macro environment last year have further accelerated the growth, creating a new wave of listings, and further transforming our market. I'm now looking at new applications every week, and we're starting to see more variety in the types of companies, including the variety of Biotech companies covering a wide spectrum of therapeutic areas, from pharmaceuticals to medical devices, AI-enabled solutions, diagnostics, and more. We don't see the pipeline drying up anytime soon.

The competition among international listing venues is heating up. How will HKEX ensure that it builds on recent successes and the market doesn't stagnate?

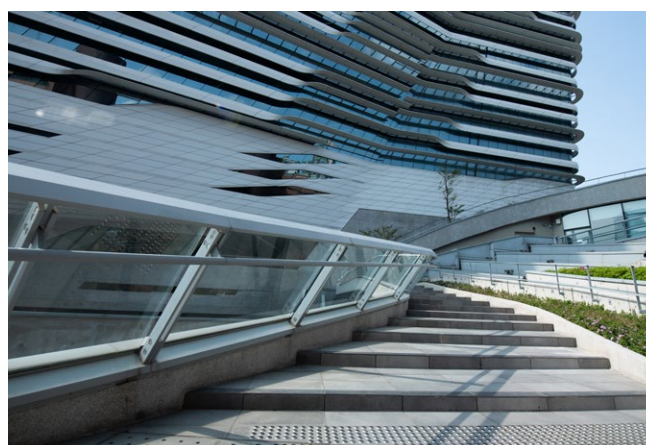
Bonnie: We've come a long way in three years. We are now the world's second largest Biotech fundraising hub, and we have built a critical mass. Our Biotech and New Economy ecosystem is continuing to expand and becoming increasingly sophisticated, which is critical to the long-term, sustainable growth of our markets.

We think there are still many more opportunities ahead. We are reflecting on our experience over the past three years, and building on that to improve our guidance, clarify our interpretation of these sectors, and use that to further enhance these listing chapters. We have improved upon Ch18A several times already since its launch, and have recently published a new consultation paper on enhancing the listing regime for overseas issuers including certain features under Ch19C, which will hopefully help us further streamline the process. We'll continue to look for opportunities to evolve the chapters, and further increase our attractiveness to issuers and investors.

What are some of the other key initiatives that will impact this market in the next two to three years?

Bonnie: In addition to the listing chapters' enhancements I have just mentioned, we're also going through a major digital transformation, making the whole listing process more efficient and user-friendly. FINI (Fast Interface for New Issuance), which will enable IPO market participants, advisers, and regulators to interact digitally and seamlessly across the entire IPO settlement process, will be a further big step forward in that regard.

We're also going paperless in our whole IPO application process, which will be more efficient for everyone involved. We're using AI to review annual reports, which makes us faster, more comprehensive and nimble. And we won't stop there. We are looking at other ways that will help us work smarter and more efficiently. Ultimately these things will benefit issuers, along with all of our market participants, as well as us.



How are the regulatory focuses different when vetting a New Economy applicant compared with more traditional companies? Any suggestions for future applicants?

Bonnie: With a traditional company we look at their track record and continuity, and investors use that to predict future performance. With New Economy applicants, we are trying to assess the potential of the company and its business model, and the promises being made by the company, and analyse what the associated risks are. It’s a very fundamental shift in mind-set.

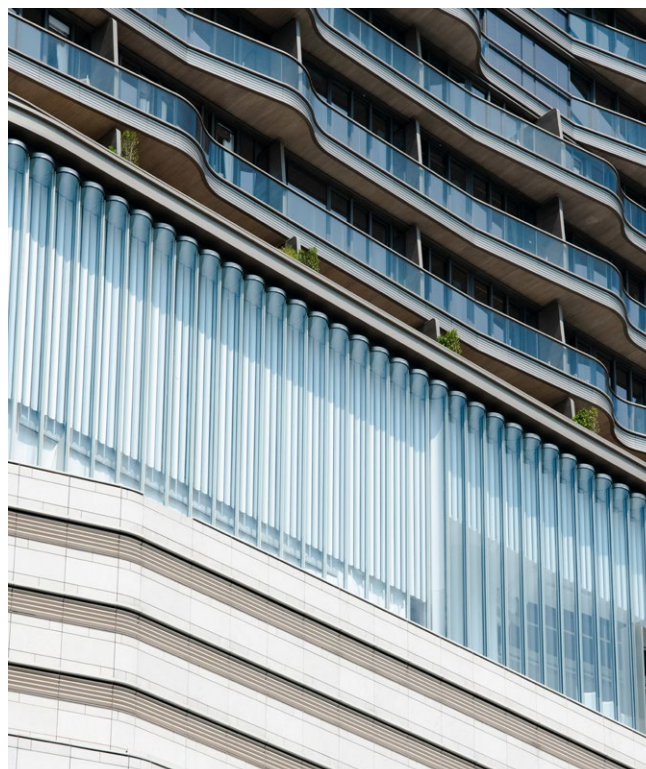
This puts a greater onus on the New Economy companies to tell their story well, and my advice to applicants is to make sure they present their vision and their strategy in a balanced way, giving explanations of opportunities and risks. Sometimes applicants are a bit grandiose in describing what they hope to do, without being clear enough about the risks. There has to be integrity in the way they describe their business and outlook. We are looking for balance.

What should we expect from the consultation on the listing regime for overseas issuers?

Bonnie: The consultation sets out our proposals on further streamlining how we welcome overseas issuers to our markets. Our goal is to make it even more attractive, and the process easier for them to come and list in Hong Kong, whilst at the same time maintaining shareholder protections and market quality. We are also looking to expand the secondary listing regime, and offer greater flexibility for issuers seeking dual-primary listings.

If it goes ahead, international as well as Chinese issuers looking at Hong Kong as a venue for primary and dual-primary listing, as well as secondary listing, should expect to find a much smoother and more efficient listing process.

For ambitious companies around the world, we expect this refinement will further strengthen our role as the go-to international capital in Asia and beyond. Many regional and international companies are still focused on recovering from the disruptions of Covid-19, but as they again begin to focus on growth and raising capital, they’ll find Hong Kong is an even better place to list and raise capital than ever before. We look forward to welcoming them.



On 31 Mar 2021, HKEX published a consultation paper seeking public feedback on proposals to enhance and streamline the listing regime for overseas issuers. Please be reminded to submit your feedback by 31 May 2021!

The key proposals in the consultation:

Streamlined requirements with a **single set of shareholder protection standards** to ensure consistent protection is provided to all investors

Expansion of secondary listing regime for overseas-listed Greater China companies from **traditional sectors without WVR structures**

Greater flexibility for issuers to dual-primary list with their **existing WVR structures and VIE structures**





Stay in touch

Thank you for joining us in celebrating the third anniversary of the new HKEX Listing Chapters! Without the support of the IPO community, Hong Kong's growing Biotech and technology ecosystems, and all of the market participants, this new journey would not have been possible. At HKEX we will continue our efforts, working together with the market to further enhance and expand opportunities in Hong Kong, building Asia's most vibrant and liquid market!

If you would like to share your feedback with us, please email ipoexpress@hkex.com.hk.



Preparing for a listing?
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celebrate your success?

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and we will work with you to make sure
it is a memorable experience!

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