HKEX LISTING DECISION

HKEX-LD138-2022 (September 2022)

[Streamlined and incorporated into the Guide for New Listing Applicants in January 2024]

Summary	
Parties	Company A to Company E – each a proposed applicant seeking listing on the Main Board with a Weighted Voting Rights (WVR) structure
Issue	To provide guidance on why the Exchange considered certain proposed applicants have not demonstrated their suitability to list with a WVR structure
Listing Rules	Main Board Rules 8.04, 8A.04 and 19C.02
Related Publications	HKEX-GL93-18 and HKEX-GL94-18 (the "**Guidance Letters**")
Decision	The Exchange determined that each of Company A to Company E has not demonstrated its suitability to list with a WVR structure

BACKGROUND

1. The Guidance Letters set out the factors that the Exchange takes into account when considering whether an applicant is suitable for listing with a WVR structure.

2. In making its assessment, the Exchange takes into account all relevant facts and circumstances. To enable the Exchange to make a prompt assessment, an applicant should include in its submission all relevant facts with a meaningful and balanced discussion of its core business, technologies and innovations, instead of making selective disclosures focusing only on favourable facts. Doing so will avoid the assessment being prolonged because of further information and/or clarification requests.

3. To illustrate how the Exchange may consider certain facts and circumstances when assessing an applicant's suitability pursuant to the Guidance Letters, and with a view to improving the overall effectiveness and efficiency of the Exchange's assessment, this listing decision sets out certain characteristics of applicants which are determined not to have demonstrated their suitability to list with a WVR structure.

CHARACTERISTICS OF APPLICANTS UNABLE TO DEMONSTRATE WVR SUITABILITY

4. Applicants which are unable to demonstrate WVR suitability generally failed to substantiate how they are able to differentiate themselves from existing market players, which is a key element of innovativeness. They generally possess one or more of the following characteristics:

   (i) an inability to demonstrate that its success is attributable to the application, to its core business, of new technologies, innovations, and/or a new business model;

   (ii) research and development not being a significant contributor of its expected value or constitute a major activity and expense;

   (iii) the absence of an outsized market capitalisation relative to its tangible asset value; and

   (iv) the absence of innovative technologies in its intellectual properties or a lack of relevance of such intellectual properties to its core business.

5. Appendix 1 sets out descriptions of relevant facts and circumstances of certain applicants which are determined not to have demonstrated their suitability to list with a WVR structure. A number of these applicants have proceeded to list on the Exchange without a WVR structure.

***

Appendix 1

Applicant	Background and Reasons
Company A	Company A is a retailer based in China which sells lifestyle products (such as stationery and gifts, personal care products, home décor and electronics). Company A operates its physical retail network under a franchise and distributorship model. Under the franchise model, the franchisees would purchase Company A's products and on-sell them to consumers at the retail store. Company A mainly assists the franchisees in customizing merchandise mix and monitoring store operations. Under the distributorship model, Company A sells the products to the distributors without any involvement in store and merchandise mix management. Company A failed to demonstrate that its franchise and distributorship model was a new and innovative business model given that many businesses in China adopt similar approach for expansion. Company A also failed to demonstrate that research and development ("**R&D**") is a significant contributor of its expected value and constitutes a major activity and expense and that it had implemented new technologies considering: (i) its R&D expenses represented a very insignificant portion of its total operating expenses during the proposed track record period; and (ii) the management systems and tools used (which include its supply chain management system, digitalised consumer engagement and marketing tools and the application of AI in store management) are already well-established in the retail sector and commonly used among large-scale retailers.
Company B	Company B operates an automotive-related business in China. In recent years, to complement its offline business, Company B introduced an online platform (e.g. a website) as an ancillary service to enable users to search for and compare products online. Despite the introduction of the online platform, the majority of Company B's sales transactions were generated from its offline network. Company B failed to demonstrate why the ancillary online platform was a new technology or innovation given that complementing the brick-and-mortar business with an online channel is common in China. Company B's financial performance was on a decreasing trend, as demonstrated by a significant decrease in both revenue and gross profit margin by nearly half in the last two years of the proposed track record period. Company B failed to demonstrate that it has a track record of high business growth and that its high growth trajectory is expected to continue.

Applicant	Background and Reasons
Company C	Company C is a vocational education and training service provider in China which offers examination preparation courses through online and offline channels. Company C failed to demonstrate that its success is attributable to the implementation of innovative technologies and business model for the following reasons: (i) the majority of revenue shifted from online education to offline education, which is very similar to conventional classroom-based education given that it did not involve the use of new technologies, innovations or a new business model; and (ii) the technologies adopted in its business are commonly used by the education sector in China and most of them were less advanced than those of its peers. Hence, Company C could not differentiate itself from existing market players. Company C's R&D expenses as a percentage of total operating expenses was lower than that of its peers and decreased by nearly two-thirds during the proposed track record period. As such, Company C could not establish that R&D is a significant contributor of its expected value and constitutes a major activity and expense. While Company C's revenue increased over the proposed track record period, a significant majority of the revenue was generated from offline tutoring, and its gross profit decreased. It failed to demonstrate that it has a track record of high business growth and that its high growth trajectory is expected to continue.
Company D	Company D is an electric vehicle ("**EV**") manufacturer in China and it recorded decent growth in sales of EVs during the proposed track record period. Whilst the EV industry is widely considered to be an emerging sector at this stage, the question of whether a company is eligible for listing with a WVR structure remains subject to it being able to satisfy the requirements under the Guidance Letters based on individual facts and circumstances. For Company D, it failed to demonstrate that it has a new business model or technologies that could differentiate itself from other existing players (which have exhibited a higher growth trend with newer car models) or that it would be able to sustain growth with updated car models: (i) Company D mainly sells its vehicles through car dealers (which is substantially the same business model adopted by traditional vehicle manufacturers) and only adopted the direct-sales model recently. Both business models are not new in the industry and Company D did not differentiate itself from other existing market players. (ii) Company D could not establish that R&D is a significant contributor of its expected value: in particular, its R&D expenses was on a decreasing trend and, as a percentage of total operating expenses, it

Applicant	Background and Reasons
	decreased by nearly half during the proposed track record period and was lower than its peers; the new technologies and innovations to be adopted in future vehicle models were co-developed with third parties; and Company D has yet to record any revenue from the sales of new vehicle models.
Company E	Company E initially engaged in the provision of third-party payment services and general trading. Mr. E is Company E's founder and the proposed WVR holder. Since the first year of the proposed track record period, Company E acquired a number of businesses involved in the provision of cloud-based e-commerce solution services using data analytics and AI technologies to merchants, which subsequently became Company E's core business (the "**Core Business**"). In light of the following facts: (i) the growth of Company E was mainly attributed to the acquisition of the Core Business and (ii) the Core Business was not established by or primarily developed under the management of Mr. E, Company E failed to demonstrate that Mr. E has been materially responsible for the growth of Company E and/or the Core Business, which is one of the key requirements for qualifying as a WVR holder under Guidance Letter HKEX-GL93-18.

***