



CONTENTS

- | Welcome from Bonnie Y Chan, Head of Listing
- | Interview with Andrew Weir, Listing Committee Chairman
- | Recent Listing Developments
- | Looking Forward



Welcome.

I am very pleased to welcome you to the first bi-annual Listing Division Newsletter. We will use this channel to update you on topics we think will be of greatest interest to you.

In the first six months of the year the COVID-19 outbreak has required us all to respond quickly to rapidly changing circumstances. We are thankful that our stakeholders have met the challenge admirably, demonstrating the resolve of the Hong Kong market, even in the face of the most difficult circumstances.

The pandemic did not prevent the launch of some notable IPOs. As at the date of this newsletter we listed 64 new companies in the first six months of the year, raising total funds of HK\$87.5 billion. This includes the listing of four new biotech companies and two more “homecoming” Greater China issuers (NetEase, Inc. and JD.com, Inc.) under our regime for secondary listings.

These IPOs are evidence of the continuing success of the new regimes for emerging and innovative companies; introduced in April 2018 under the leadership of Andrew Weir, the Chairman of the Listing Committee whose tenure at the helm of the Committee ends this month.

Andrew has left a legacy that prepares us well for the years ahead and will be long-lasting. On behalf of the Division I would like to wholeheartedly thank him for his contribution over the last six years.

Bonnie Y Chan
Head of Listing

Interview with Andrew Weir Listing Committee Chairman



Andrew was appointed Chairman of the Listing Committee in 2017 and has been a Committee member since 2014. He is the Global Head of Asset Management and the Regional Senior Partner of KPMG in Hong Kong and Vice Chairman of KPMG China.

Q: In the current circumstances, I feel obliged to start by asking you about the Committee’s reaction to COVID-19. The initial period of the outbreak coincided with the busiest financial reporting period for listed companies. What measures have you put in place to help issuers deal with the inevitable disruptions to the reporting or audit processes of listed issuers?

A: Hong Kong is an international financial centre and how it is seen to have reacted is vital. It certainly required some quick and joined-up thinking. The first thing we did is to issue an **announcement**, jointly with the SFC, advising listed issuers to seek our early guidance and signalling that we would be willing to grant dispensations to minimise the number of possible suspensions of trading that would inevitably follow if we did nothing. At the same time it was key to ensure that the investing public continued to receive timely and sufficient information to make informed investment decisions.

Due to an extraordinary and concerted effort among regulators, listed issuers, auditors and other professionals there has been no material delay to the publication of results compared to the previous year. All but nine listed issuers published their results or material financial information by their March deadline, a major achievement out of over 1,800 listed issuers that were due to report their 2019 full year results by the end of that month.



Q: More than two years ago, in April 2018, the Exchange changed its rules by introducing three new regimes for emerging and innovative companies. Are you satisfied with the results of your efforts so far?

A: The results largely speak for themselves. The listings of major biotech groups and those of Alibaba, NetEase and JD.com being exciting recent examples. The reforms were implemented followed a long, extensive and necessary debate on the balance between Hong Kong remaining competitive globally and providing sufficient safeguards for investors. Hong Kong now has the first proper listing regime for weighted voting right (WVR Issuers) in the world, a pathway to listing for pre-revenue biotech companies; and a way home for Greater China issuers listed in the US or UK.

	Companies	Listing Date	Gross Funds Raised (HK\$ billion)
Primary Listing WVR Issuers	Xiaomi Corporation	09 Jul 2018	42.6
	Meituan Dianping	20 Sep 2018	33.1
Biotech Companies	18 Companies listed to date		44.6
“Homecoming” Secondary Listings	Alibaba Group	26 Nov 2019	101.2
	NetEase, Inc.	11 Jun 2020	24.2
	JD.com, Inc.	18 Jun 2020	30.1*
			Total 275.8

* Before exercise of over-allotment option.

Q: Alibaba’s IPO was also the first fully paperless IPO in Hong Kong, what has been your approach to the use of technology in the listing process?

A: I am very keen to have technology at the forefront of all activities.

The Alibaba IPO set an example as to how the listing process could be modernised to remove the need for redundant paper documents and provide easier access to material information. We are also reviewing how to optimize market infrastructure, such as the IPO settlement cycle, using new technology to ensure Hong Kong remains competitive amongst its peers.

In both these areas of potential technological enhancement I encourage readers to look out for our forthcoming proposals.



Q: Could you tell us of some market quality concerns you encountered as Listing Committee chairman? For example, the shell phenomenon was a topic that attracted much media attention during your tenure.

A: A couple of years ago, shell companies (usually companies that lack substantive businesses of their own and whose assets consist mostly of cash) could become easy targets for a “backdoor” listing and hence subject to market manipulation. Backdoor listings are themselves problematic because they avoid the full rigour of our IPO requirements at the “front” door of our market.



Q: How did the Committee address these concerns?



A: We approached the problem on multiple fronts.

First, we closed the backdoor more firmly. We amended the Listing Rules (Rules) on reverse takeovers to make it harder for backdoor listings to occur and to give us more discretion to veto a transaction if we think it is an attempt to avoid our IPO requirements. In response to the concern at the time that the new Rules would stymie certain normal business activities, we made some modifications to clarify the intended application of the new Rules, and also published guidance materials and provided examples to reflect their intended application.

Second, we increased the strength of the checks at the front door to those entering our market. We issued **guidance** aimed at the listing applications of companies whose size and prospects did not appear to justify the costs or purpose of a public listing and gave us reason to suspect that the company was listing not primarily to genuinely develop and grow its business for the long term. If such applicants were unable to demonstrate their commercial rationale for listing, and clarify as to use of proceeds, we said that we may find them unsuitable for listing.

Third, we put in place a tougher de-listing regime for existing listed issuers who no longer meet continuing listing requirements, and so may be shell companies in waiting. These new Rules also had a positive effect by providing more certainty to the market on the delisting process. As many such companies are subject to prolonged suspensions, it incentivises them to re-comply with the Rules as soon as possible and act promptly towards resumption.

We are pleased to note that our approach worked and that we have addressed previous concerns regarding the quality of the Hong Kong market.

Q: I understand you have a keen interest in corporate governance and business in the community. What has the Committee done to improve the standard of corporate governance and ESG reporting by Hong Kong listed issuers?

A: Governance, sustainability and diversity are now key themes in all international financial centres. Hong Kong needs to be at the forefront with institutional investors and regulators. I firmly believe that a high performance board is one with a diversity of perspectives. From May 2019, an applicant with a single gender board is required to disclose and explain the measures it has put in place to achieve gender diversity on its board after listing. Promoting board diversity (with a particular emphasis on gender) will remain a priority.

Effective ESG gives a board the tools they need to better recognise, understand, evaluate and manage risk. In the last few years we have taken a number of significant steps in enhancing our ESG and corporate governance reporting framework. ESG reporting is now mandatory and Hong Kong is the first jurisdiction to require every Board to consider their governance of ESG matters.

Q: What will you miss most about being Chairman of the Listing Committee?

A: I will miss, most of all, being part of the Committee's ongoing and collective efforts in making Hong Kong a more innovative and well-governed market. I would like to thank all the committee members and Listing Division staff who, over my time here, have helped make that possible.



Recent Listing Developments

IPOs

New Guidance Materials for Biotech Companies

Given the evolving nature and complexity of the biotech industry, we have published the following new guidance to provide more clarity on the requirements for biotech companies:

- “Guidance on disclosure in listing documents for biotech companies” ([HKEX-GL107-20](#)) to provide guidance on disclosure matters such as the competitive landscape and addressable market of Biotech Products.
- Updated “Guidance on suitability for listing of biotech companies” ([HKEX-GL92-18](#)) on, amongst other things:
 - **R&D of Core Products :**
 - a) how a biotech company can demonstrate the R&D progress of Core Products in-licensed or acquired from third parties;
 - b) the circumstances where a commercialised Biotech Product can be regarded as a Core Product;
 - **Use of proceeds :**
 - the allowable flexibility in use of proceeds for medical device companies; and
 - **Other Biotech Products :**
 - streamlined and consolidated factors that we will consider to determine whether a Biotech Product falls in the Other Biotech Products category.



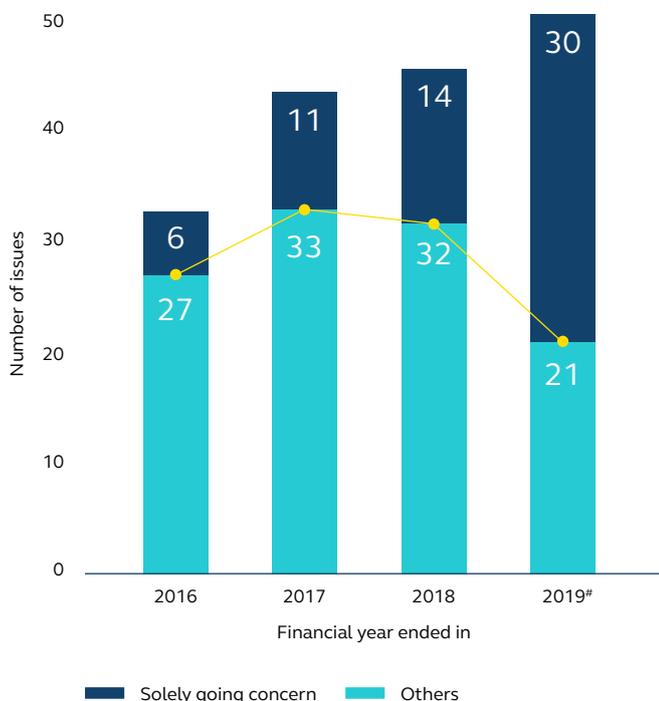
Listed Issuers

New Suspension Rules on Disclaimer or Adverse Audit Opinion Become Effective

In September 2018, we amended our suspension Rules to require a trading suspension if an issuer’s auditor has issued, or indicated it would issue, a disclaimer or adverse audit opinion on its results. The new Rules safeguard the quality and reliability of issuers’ financial information, as a disclaimer or adverse opinion indicates that the risk of misstatements on the financial statements can be both material and pervasive.

The new Rules are effective for issuers with financial years ending on or after 31 August 2020. We are encouraged to see that issuers have already started taking action to resolve the underlying matters and avert trading suspensions under the new Rules, as evidenced by a decline in the number of disclaimer or adverse audit opinions (other than those relate solely to going concern) since the announcement of the new Rules in 2018 (see chart below).

Statistics on disclaimer or adverse opinion (excluding long-suspended companies)



Results published up to 28 May 2020

Accounting Affairs

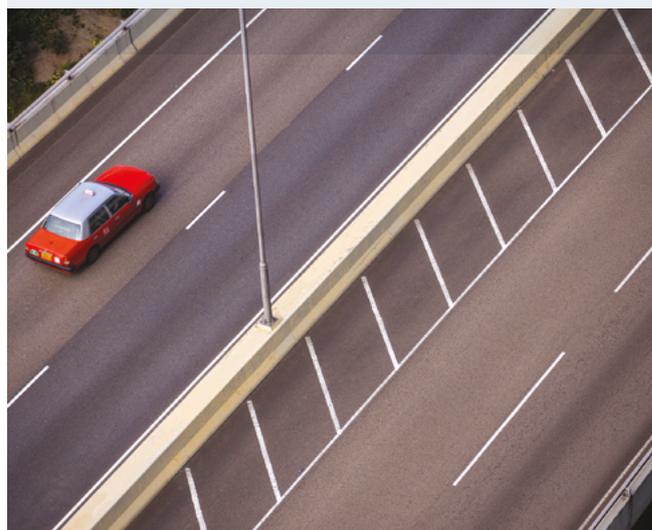
Impact of Covid-19 on Accounting Standards

The outbreak of COVID-19 has had a significant impact on the preparation of interim and annual financial statements (see [Listed Issuer Regulation newsletter](#) and Review of [Issuers’ Annual Report Disclosure](#)).

The recent amendment to IFRS 16 Leases issued by the International Accounting Standards Board (IASB) helps lessees account for COVID-19-related rent concessions by providing lessees with relief from the practical difficulty of applying IFRS 16 requirements to large volumes of such concessions.

The amendment applies to COVID-19 related rent concessions that reduce lease payments due on or before 30 June 2021. The amendment does not affect lessors.

The IASB amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not authorized for issue. HKICPA has adopted the IASB amendments to IFRS 16 as HKFRS 16 Leases in full and issued the [amendments](#) on 4 June 2020. Listed issuers are recommended to read the amendments to HKFRS 16 released by HKICPA, and discuss with their audit committees and auditors at the earliest opportunity.





Looking Forward

Listing Rule Training

We are developing a series of Listing Rule e-training courses for listed companies' directors, management and compliance staff, market practitioners and professionals. This series will cover major topics related to listed issuers' obligations, such as connected transactions, notifiable transaction, fundraisings and continuous disclosures.

Look out for our e-learning programmes! We expect to launch the first module on connected transactions in July 2020.

Structured Products

Shortening The Listing Cycle for Structured Products

Hong Kong has the largest listed structured products market in the world by turnover. More than 20,000 structured products were listed from January to May 2020, an increase of 35% compared to the same period last year. The number of listings reached a record high on 19 March 2020 with 518 structured products listed on that day alone.

It currently takes five trading days for structured products to be listed on HKEX. We will soon be able to reduce the listing cycle by two days, meaning structured products can be listed on the third trading day after launch. This should enable structured products to carry terms which better reflect the prevailing market and investor appetite.

The shortened listing cycle will take effect from 13 July 2020.



Preparing for Listing - The Importance of Corporate Governance and ESG

Compliance with corporate governance and ESG matters starts on day one of listing. It is tempting for the board of a listing applicant to put it off until the annual reporting season. However, the board is collectively responsible for ensuring that a listing applicant builds the necessary governance mechanisms into the IPO listing process, so that these are up and running immediately upon listing. Because of the importance of such preparation, we are considering strengthening existing requirements on **corporate governance** and **ESG** at the IPO stage and releasing guidance for listing applicants on the matter.

Enforcement

Non-Cooperative Directors

The undertaking given by an issuer’s directors to the Exchange upon their appointment contains a positive obligation to cooperate in any investigation conducted by the Exchange. This obligation also applies to former directors of listed issuers. The Division considers that non-cooperation calls into question the individual’s suitability to act as director of a listed issuer or listing applicant. Accordingly, if an individual fails to cooperate, then they should expect disciplinary action and sanctions to follow. The recently-revised **Disciplinary Procedures** provide further flexibility for the Listing Committee to determine non-cooperation cases in an expeditious manner.

Contact Details

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



Disclaimer

HKEX and/or its subsidiaries have endeavoured to ensure the accuracy and reliability of the information provided in this document, but do not guarantee its accuracy and reliability and accept no liability (whether in tort or contract or otherwise) for any loss or damage arising from any inaccuracy or omission or from any decision, action or non-action based on or in reliance upon information contained in this document.

