

## LCQ16: Attracting China Concept Stock companies to list in Hong Kong

Following is a question by the Hon Yim Kong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 4):

Question:

There are views pointing out that in the wake of geopolitical changes and escalating tension between China and the United States, China Concept Stock (CCS) companies have become targets of suppression, and that attracting CCS companies listed on overseas markets to list in Hong Kong is a significant measure for Hong Kong to integrate into the overall development of the country and to enhance its status as an international financial centre. However, the situation concerned is less than satisfactory as of now. In this connection, will the Government inform this Council:

(1) whether it has studied the major difficulties that Hong Kong is currently facing in further attracting CCS companies to list in Hong Kong and the reasons behind;

(2) whether it will introduce new measures that tailor to the characteristics of CCS companies to facilitate their listings in Hong Kong, such as by (i) lowering the requirements for the companies concerned in terms of market capitalisation, revenue and profit, (ii) relaxing and clarifying the definition of companies from emerging and innovative sectors, and (iii) extending the more relaxed listing requirements (such as allowing the listing of companies that have yet to make any revenue or profit) solely applicable to biotechnology companies currently to more innovation and technology companies; if so, of the timetable; and

(3) whether it has, by drawing reference from the experience of the Mainland and overseas places, explored ways to protect the interests of investors while relaxing the listing requirements to attract CCS companies to list in Hong Kong; of the measures in place to make it more convenient for Mainland investors to make more investment in CCS companies listed in Hong Kong through the Shanghai-Hong Kong Stock Connect (S-HK Stock Connect) and Shenzhen-Hong Kong Stock Connect (SZ-HK Stock Connect)?

Reply:

President,

Mainland enterprises listed overseas are commonly known by the market as "China Concept Stocks". The Financial Stability and Development Committee under the State Council stated after the meeting on March 16 that the regulatory bodies concerned have maintained good communication on the

regulation over US-listed Chinese enterprises and made positive progress. The two sides are working on a concrete cooperation plan. Subsequently, the China Securities Regulatory Commission (CSRC) also indicated that it would further expand high quality market opening-up and strive for an early implementation of new draft rules for overseas listings, rendering continued support for eligible companies to seek listings in overseas markets. Meanwhile, the CSRC would also support capital market cooperation between the Mainland and Hong Kong to jointly safeguard soundness and stability of the Hong Kong market.

The Government of the Hong Kong Special Administrative Region (HKSAR) will, as in the past, support the policy direction of the Central People's Government and contribute to the high quality opening-up of the country. For "China Concept Stocks" issuers who would like to list in Hong Kong, leveraging on our institutional strengths as an international financial centre and unique advantages under the "one country, two systems" principle, we have already made preparation to attract quality "China Concept Stocks" to list in Hong Kong, providing more choices to investors and increasing market liquidity.

In consultation with the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEX), my reply to the three parts of the question is as follows:

(1) and (2) The HKSAR Government has all along strived to develop Hong Kong into a deeper and broader fundraising platform. The HKEX introduced a series of reforms to the listing regime in April 2018, which include launching a new concessionary route to secondary listing for Greater China issuers (Note) who are listed on major overseas markets, belonging to emerging and innovative sectors, and meeting specific eligibility criteria, while grandfathering their weighted-voting-right (WVR) or variable interest entity (VIE) structures.

In view that an increasing number of "China Concept Stocks" may choose to return from overseas markets and the demand for such listings is expected to continue to grow in future, targeting the fundraising needs and characteristics of "China Concept Stocks" and other overseas issuers, the HKEX conducted a holistic review of the relevant listing regime from 2020 and consulted the market in March 2021 on a set of proposals to further enhance and streamline the listing of Greater China issuers in Hong Kong. With support from a majority of the respondents, the HKEX implemented the measures in January 2022, which include revisions to the market capitalisation requirement and the "innovative company" condition for relevant issuers to secondary list in Hong Kong, with a view to facilitating "China Concept Stocks" to list in Hong Kong. The key enhancements are as follows:

#### Secondary listing

\* the requirements of secondary listing in Hong Kong for Greater China issuers without a WVR structure are relaxed by removing the "innovative company" condition, with a view to assisting Greater China issuers from traditional sectors to seek secondary listing in Hong Kong;

- \* the minimum market capitalisation requirement for Greater China issuers without a WVR structure is relaxed from the original \$40 billion or \$10 billion (if its revenue for the most recent financial year is at least \$1 billion) to \$3 billion;

From secondary listing to primary listing

- \* secondary listed issuers will be regarded as primary listed issuers in Hong Kong in the event of delisting from an overseas exchange. While they need to comply with the applicable provisions for primary listed issuers under the Listing Rules, the issuers concerned would have a 12-month grace period to allow for the preparation of financial statements in accordance with Hong Kong or international financial reporting standards;

- \* for issuers who are involuntarily delisted from an overseas exchange, the continuing transactions entered into before the issuers' notification to the HKEX on the expected involuntary delisting would be exempted from the relevant Listing Rules for three years from the date of the notification. If necessary, the HKEX may grant a grace period on a case-by-case basis;

Dual primary listing

- \* for Grandfathered Greater China issuers with WVR or VIE structures who could meet the relevant requirements for secondary listing, they could apply for dual primary listing directly and their existing WVR or VIE structures will be grandfathered. In addition, if Grandfathered Greater China issuers apply for conversion to primary listing status after secondary listed in Hong Kong, their WVR and VIE structures that were in effect at the time of secondary listing in Hong Kong will also be grandfathered; and

- \* in the event of migration or voluntary conversion to primary listing, secondary listed issuers will be regarded as dual primary listed issuers.

Regarding the technology and innovation sector, the Financial Secretary announced in the 2022-23 Budget that in order to cater for the emerging new economy in the Mainland in recent years and considering the fundraising needs of large-scale advanced technology enterprises, the SFC and the HKEX are reviewing the Main Board Listing Rules and, having due regard to the risks involved, examining the revision of the listing requirements to meet the fundraising needs of such enterprises. "China Concept Stocks" from the technology sector listed overseas may also benefit from the review. The HKEX will approach relevant market participants and listen to their views, with a view to putting forward concrete recommendations as soon as possible and consulting the market publicly.

Overall speaking, the above measures would be conducive to attracting quality "China Concept Stocks" listed in overseas exchanges to return. Apart from seeking secondary listing in Hong Kong, the measures also provide greater flexibility to relevant issuers to seek dual primary listing directly or obtaining primary listing status in Hong Kong through migration or

voluntary conversion. The HKSAR Government will maintain close communication with the SFC and the HKEX, continue to review the implementation of the regulatory regime for listing, and introduce further enhancements as appropriate.

(3) The HKSAR Government has all along strived to balance market development and maintaining high level of investor protection. To address the difference in shareholder protection standards under the laws of other jurisdictions and that under Hong Kong legislation, during its review of measures to attract the return of "China Concept Stocks" in 2020, the HKEX also took the opportunity to examine the provisions of company laws of relevant jurisdictions, in order to formulate a set of core standards applicable to listed companies from different places in establishing baseline protection for investors. After consulting the market, the HKEX implemented a series of revisions in January 2022 to ensure that the same set of core shareholder protection standards are adopted for all issuers, thus providing the same level of protection to investors. These protection requirements cover arrangements of general meetings, shareholders' rights, etc.

The deepening of integration and interaction of financial markets between the Mainland and Hong Kong has also been the policy objective of the HKSAR Government. Currently, eligible "China Concept Stocks" with dual primary listing status could be included as eligible securities under Stock Connect if they fulfill the relevant requirements, which could attract trading by Mainland investors and enhance their liquidity. We have also included pre-revenue/pre-profit biotechnology companies listed in Hong Kong that fulfill certain criteria in the scope of eligible securities under Stock Connect from December 2020. As at end of March 2022, 28 companies that were listed under the Biotech Companies Chapter (Chapter 18A) have become eligible securities under Stock Connect through this route, the majority of which are "China Concept Stocks". The HKSAR Government will continue to expand the mutual market access programmes in a gradual manner in future and explore with the Mainland to further expand the scope of eligible securities.

Note: Qualified issuers with a centre of gravity in Greater China.