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## Impact of HKEx Listing Reforms of 2018

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In 2018, Hong Kong introduced three new chapters to the Listing Rules:

- Chapter 8A, providing for the listing of new economy issuers with Weighted Voting Right (**WVR**) structures;
- Chapter 19C, providing for a new secondary listing route for companies primary listed on certain Qualifying Exchanges; and
- Chapter 18A, providing for the listing of pre-revenue Biotech companies.

Please see [Charltons' April 2018 Newsletter Consultation Conclusions on WVR Listings](#) for a summary of the requirements for listing companies with WVR structures and for secondary listings under Chapter 19C and [Charltons' April 2018 Newsletter New Rules for Listing Biotech Companies on the Hong Kong Stock Exchange](#) for a summary of the new Listing Rules relating to biotech company listings.

The goal of the 2018 reforms was to strategically enhance Hong Kong's position as a hub for technology and biotech firms looking to raise capital, and indeed, Hong Kong overtook the US as the listing venue of choice for China's new economy companies following the reform.

The following provides a summary of the development of the 2018 reforms, Alibaba's subsequent secondary listing and the performance of HKEx-listed China tech stocks since 1 January 2020, particularly in light of the ever-evolving coronavirus situation which has seen some Chinese tech companies surge in customers thanks to the increasing reliance on work from home applications and digital health consultations.

## 1. Summary of the Development of the 2018 Reforms

In September 2014, Alibaba debuted its IPO on the New York Stock Exchange (**NYSE**), raising a total of US\$ 25 billion and becoming the largest IPO in history, prior to Saudi Aramco's US\$ 29.4 billion listing.

The decision to list in the US was taken as Hong Kong did not permit WVR structures and following losing out on Alibaba's IPO, the issue on whether to allow companies with such structures to list on HKEx reignited.

### a. Hong Kong's Position on Dual-Class Share Structures pre-2018

Dual share arrangements have not been permitted in Hong Kong since 1987. The decision followed the announcements in late March 1987 by Jardine Matheson Holdings Ltd., Cheung Kong (Holdings) Ltd. and Hutchison Whampoa Ltd., each of which proposed a bonus issue of "B" shares.

Following the announcements, the Hang Seng Index fell by 3.7 percent and on 8 April 1987, a joint statement was released by the Securities Commissioner and the Chairman of the Stock Exchange rejecting the proposals and stating that the listing of B shares would no longer be permitted on the basis of the disadvantages likely to occur in listing such shares and the strong opposition by both Hong Kong and overseas brokers.<sup>1</sup>

The Standing Committee was then asked to consider the question of B shares and whether or not the ability of companies to issue shares with voting rights disproportionate to their nominal value was in the general interest of shareholders and in the public interest.

The findings of the Committee were published in July 1987 in the Third Interim Report of the Standing Committee on Company Law Reform: B Shares.<sup>2</sup>

The report outlined that at the time five companies in Hong Kong had dual-class share structures:

- Swire Pacific Limited;

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<sup>1</sup> Stock Exchange of Hong Kong, Securities Bulletin, May 1987, page 32.

<sup>2</sup> An extract from the report (including the relevant paragraphs) is included in the Concept Paper on Weighted Voting Rights at Appendix 1. Available here: <https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2011-to-2015/August-2014-Weighted-Voting-Rights/Consultation-paper/cp2014082.pdf>

- Hong Kong Realty and Trust Co Ltd;
- Lane Crawford Ltd;
- Local Property Co Ltd; and
- Realty Development Co Ltd.

The Committee ultimately emphasised their opposition to the indiscriminate issue of B shares on the basis that it could lead to a loss of confidence in Hong Kong as a major financial centre, however stated there was a legitimate need for their availability in exceptional circumstances (i.e. approval on a case-by-case basis).

The restriction on the listing of B shares was announced on 8 April 1987 and codified in the December 1989 edition of the Main Board Listing Rules as Rule 8.11, which states that HKEx will not allow any new B shares to be issued, except:

- In exceptional circumstance as agreed with HKEx;
- Where a listed company already has B shares in issue, in respect of further issues of B shares identical with those B shares by way of scrip dividend or capitalisation issue, provided the total number of B shares in issue remains in the same proportion to the total number of other voting shares in issue previously; and
- Since 2018, as permitted by Chapter 8A or Chapter 19C of the Listing Rules.

#### b. Alibaba's Decision to List on the NYSE

As a result of this 1987 decision, Alibaba entered into talks with HKEx, reportedly proposing a dual-class share structure, which would allow the senior management to nominate a majority of the board members.

Ultimately, HKEx would not compromise on their “one share, one vote” principle, with Charles Li, HKEx Chief Executive, noting that they would not sacrifice shareholder protection,<sup>3</sup> and others raising concerns as regards a lack of a clear enforcement regime or litigation system, if granted.

Accordingly, Alibaba looked to the US and listed on the NYSE, which permits companies with WVR structures to list, and importantly granted Alibaba's senior management the control they were seeking.

This was costly for HKEx, both financially (in terms of losing out on the initial listing fee and the annual listing fees) and in terms of market development, with Alibaba's listing coming at a time regional competition was ramping up as stock exchanges tried to attract new generation tech start-ups. Not to mention, Hong Kong lost out on being the world's largest IPO market in 2014.<sup>4</sup>

#### c. The 2018 Reforms

Following this, on 18 June 2014, the FSDC published [Positioning Hong Kong as an International IPO Centre of Choice](#) and suggested that the “one share, one vote” concept be reconsidered, noting that modifications and partial relaxations may be appropriate and that regulators should keep an open mind to ensure the Hong Kong market is up to date.

On 29 August 2014, HKEx then published a [Concept Paper on Weighted Voting Rights](#) inviting views on the WVR structure and whether such structures should be permissible for companies currently listed/seeking to list on HKEx. Please see [Charltons' September 2014 Newsletter](#) for a summary of issues raised in the Concept Paper.

In June 2015, HKEx published its [Consultation Conclusions](#) proposing to move to a second stage consultation on a formal proposal, meanwhile the Securities and Futures Commission (**SFC**) issued a [statement](#) on 25 June 2015 emphasising that it did not support the draft proposal for primary listings with WVR structures and setting out its reasoning.

<sup>3</sup> <https://mondovisione.com/news/hkex-chief-executive-charles-li-latest-charles-li-direct/>

<sup>4</sup> <https://www.nyse.com/network/article/2014-NYSE-Year-In-Review>

Subsequently, HKEx announced its [decision](#) not to proceed with the draft proposal, albeit it would continue to monitor developments in Hong Kong and potentially revisit the issue of WVR structures in the future.

In February 2018, HKEx then published a [Consultation Paper on a Listing Regime for Companies from Emerging and Innovative Sectors](#) proposing to introduce Chapter 8A, Chapter 19C and Chapter 18A. The paper drew on feedback from the [New Board Concept Paper](#) (16 June 2017) which identified gaps in Hong Kong's listing regime affecting its competitiveness. Please see [Charltons' February 2018 Newsletter](#) for a summary of the consultation paper.

The [Consultation Conclusions](#) were then published in April 2018 and the new Listing Rules came into effect from 30 April 2018. By the end of 2018, HKEx won the listings of:

- Xiaomi Corp., Beijing-based smartphone maker, which raised HK\$ 42.61 billion (July 2018); and
- Meituan Dianping, a web-based shopping platform, which raised HK\$ 33.14 billion (September 2018).

Please see [Charltons' April 2018 Newsletter](#) for a summary of the Consultation Conclusions.

## **2. Listings of Innovative Companies and Pre-revenue Biotech Companies on HKEx**

### **a. Secondary Listings of Innovative Companies on HKEx under Chapter 19C of the Listing Rules**

[Chapter 19C of the Main Board Listing Rules](#) allows companies listed on an overseas qualifying exchange, with their “centre of gravity” in Greater China, to seek secondary listing on HKEx.

Following the reforms, Chinese e-commerce giant Alibaba Group's secondary listing on HKEx debuted on 26 November 2019, raising at least US\$ 11.3 billion,<sup>5</sup> surpassing Uber Technologies' US\$ 8.1 billion offering in May 2019 and representing the largest in Hong Kong since insurance group AIA's HK\$ 159 billion was raised in 2010.

By the end of its first session, Alibaba's shares closed at HK\$ 187.60, 6.6 percent higher than the issue price of HK\$ 176 per share,<sup>6</sup> and on 3 December 2019, the company stated that it had raised an additional US\$ 1.68 billion by exercising the over-allotment option.<sup>7</sup>

As a result of Alibaba's listing, HKEx subsequently climbed to the top of the IPO fund-raising ranking in 2019, with 145 companies raising US\$ 37.2 billion (HK\$ 307.8 billion) from share sales as at 8 December 2019, outpacing the volume on both NASDAQ and the NYSE, which raised US\$ 27.5 billion and US\$ 27.1 billion respectively.<sup>8</sup>

In terms of sector funds raised, the Telecommunications, Media and Technology (**TMT**) sector ranked top in 2019, raising a total of US\$ 14.12 billion (HK\$ 110.2 billion), bolstered by Alibaba's listing, with this representing around 33 percent of the Main Board's total funds raised in 2019.

### **b. Alibaba's Rationale for Secondary Listing on HKEx**

According to press reports, the company's rationale for secondary listing were more complicated than simply the desire to raise funds. Motivations may have included:

- Responding to calls from Beijing for Chinese tech giants to return to the Chinese market against the backdrop of the US-China trade war; and

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<sup>5</sup> NY Times “Alibaba's Hong Kong Shares Rise 6.6% on Debut in Heavy Volume” at <https://www.nytimes.com/reuters/2019/11/26/business/26reuters-alibaba-listing-hongkong.html>

<sup>6</sup> Ibid.

<sup>7</sup> NY Times “Alibaba Raises Further \$1.7 Billion in Over-Allotted Shares in HK Listing” at <https://www.nytimes.com/reuters/2019/12/03/business/03reuters-alibaba-listing-hongkong.html>

<sup>8</sup> KPMG “Mainland China and Hong Kong 2019 Review: IPOs and Other Market Trends” at <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2019/12/china-hk-ipo-2019-review-and-outlook-for-2020.pdf>

- Sending a signal to show the resilience of Hong Kong's capital market.<sup>9</sup>

*i. Response to Beijing's Calls in Light of the US-China Trade War*

In light of the US-China trade tensions, Alibaba's decision to secondary list on HKEx may be attributed to the fact that firstly, Alibaba is China's biggest online commerce company and the most popular destination for online shopping in the world's fastest growing e-commerce market. Therefore, in coming to Hong Kong, Alibaba may have been demonstrating its loyalties to China and providing a buffer if the performance of its NYSE-listed shares fell due to global anxieties surrounding US-China tensions.

Furthermore, Alibaba's secondary listing enables Mainland Chinese investors to buy the stock, given that China's capital controls make it difficult for Chinese investors, who do not already have money offshore, to buy NYSE-listed shares.

*ii. Resilience of Hong Kong's Capital Market*

Alibaba's listing also was an important signal of the resilience of Hong Kong's capital market amidst economic recession, after 6-month of protests and unrest, now coupled with the impact of the ever-evolving coronavirus situation. Please see [Charltons' February 2020 Newsletter on the Hong Kong 2020/2021 Budget](#) for more information on the difficulties Hong Kong experienced in 2019 and the outlook for 2020.

c. Listings of Pre-revenue Biotech Companies on HKEx under Chapter 18A of the Listing Rules

In addition to technology, the Healthcare and Life Sciences sector is steadily taking shape in the Hong Kong IPO market with the help of biotech companies thanks to the addition of [Chapter 18A](#), which allowed the listing of pre-revenue biotech companies on HKEx in an effort to attract listings from China's new generation of biotech companies amid growing competition between US and Chinese exchanges.

The Healthcare and Life Sciences sector raised US\$ 4.93 billion (HK\$ 38.5 billion) in 2019 and nine pre-revenue biotech companies have issued public offerings under the new listing regime, raising a total of US\$ 1.97 billion (HK\$ 15.4 billion). The sector is expected to grow in the future, as aging populations and longer lifespans are likely to continuously generate significant demand for healthcare and life sciences services.<sup>10</sup>

### **3. The Performance of HKEx-Listed China Tech Stocks in 2020**

a. The Alibaba Group Holding Ltd (Stock Codes: 09988.HK)

Alibaba's stock had a strong start in 2020, climbing steadily in early January and reaching its highest share price at HK\$ 223.60 on 14 January 2020. On 31 January 2020, the Chinese e-commerce tech giant then tumbled with market fear in regards to the rapid spread of COVID-19 and Alibaba's share price fell to HK\$ 200.40, before falling further to HK \$188.80 as of 12 March 2020.

Alibaba, like many others, has been affected by the outbreak of COVID-19 in early 2020, particularly considering that the Group's core business in China depends on millions of people and trucks to ferry packages through an increasingly tangled transport network.

Accordingly, with many Chinese cities in shut down and factories and companies halting operations, great pressure has been placed on China's consumers, merchants and notably the Group's revenue in the current quarter.<sup>11</sup>

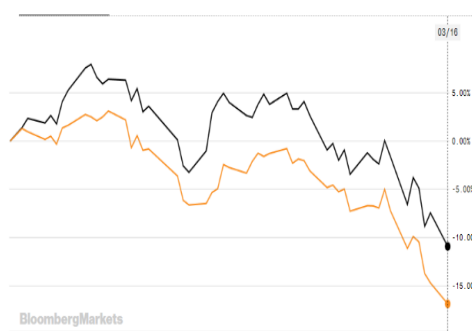
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<sup>9</sup> Financial Times "Alibaba's Debut in Hong Kong Signals Change in Beijing's Mindset" at <https://www.ft.com/content/5257d548-1686-11ea-8d73-6303645ac406>

<sup>10</sup> Ibid.

<sup>11</sup> Zheping Huang and Clarie Che, "Virus Outbreak Exposes \$46 Billion Rift in China's Tech Industry" (24 February 2020) *Bloomberg*. Available at: <https://www.bloomberg.com/news/articles/2020-02-23/virus-outbreak-exposes-46-billion-rift-in-china-s-tech-industry?sref=jMV0XWp7>

Further, Alibaba Chief Executive Officer, Daniel Zhang, stated that the Group is seeing relatively large changes in buying patterns, unlike food delivery services, clothing and electronics, and are running into logistical problems,<sup>12</sup> with the CEO also describing it as a Black Swan event.<sup>13</sup>



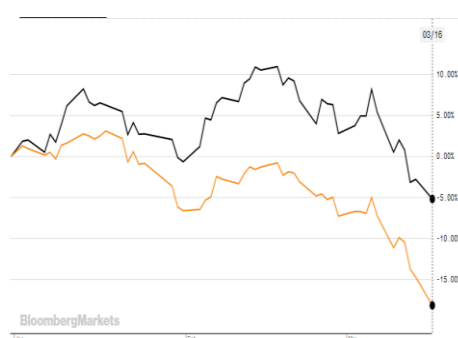
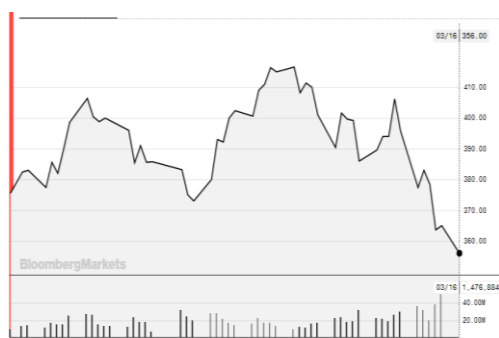
- The year to date stock prices of Alibaba is **-13.47%**
- The one month stock prices of Alibaba is **-16.60%**
- Relative performance of the Hang Seng Index (HSI) over the period of time.<sup>14</sup>

b. Tencent Holdings Ltd (Stock Codes: 00700.HK)

Tencent's stock price has seen a steady rise since early February 2020, touching its six month high of HK\$ 416.60 on 17 February 2020, before falling to a year low of HK\$ 351.20 as of 16 March 2020.

The WeChat operator has gained about US\$ 18 billion after the COVID-19 outbreak in early 2020, with gains from the increasing audience base owing to millions being confined to their homes due to government-imposed quarantine restrictions.<sup>15</sup>

Further, with millions of employees working from home, the demand for office apps and work-from-home digital tools have soared, with Tencent's *WeChat Work* and *Tencent Conference* seeing an exponential growth in early February 2020.<sup>16</sup>



<sup>12</sup>Lulu Yilun Chen, Kari Soo Lindberg, and Zheping Huang, "Alibaba Warns Virus Having Broad Impact on Chinese Economy" (13 February 2020). Available at: <https://www.bloomberg.com/news/articles/2020-02-13/alibaba-s-revenue-beats-after-singles-day-offsets-china-slowdown?sref=jMV0XWp7>

<sup>13</sup> Tim Culpan, "China's Coronavirus is Bringing Alibaba to its Knees" (14 February 2020) *The Washington Post*. Available at: [https://www.washingtonpost.com/business/chinas-coronavirus-is-bringing-alibaba-to-its-knees/2020/02/13/ccce6dcc-4e7c-11ea-967b-e074d302c7d4\\_story.html](https://www.washingtonpost.com/business/chinas-coronavirus-is-bringing-alibaba-to-its-knees/2020/02/13/ccce6dcc-4e7c-11ea-967b-e074d302c7d4_story.html)

<sup>14</sup> *Ibid.*

<sup>15</sup> See footnote 1 above.

<sup>16</sup> Zheping Huang and Kari Soo Lindberg, "Tencent, Alibaba Apps Find Fans in Virus-Affected Schools" (12 February 2020) *Bloomberg*. Available at: <https://www.bloomberg.com/news/articles/2020-02-12/tencent-alibaba-office-apps-find-fans-in-virus-affected-schools?sref=jMV0XWp7>

- The year to date stock prices of Tencent is **9%**
- The one month stock prices of Tencent is **17.64%**<sup>17</sup>
- Relative performance of the HSI over the period of time.<sup>18</sup>

c. Meituan Dianping (Stock Codes: 03690.HK)

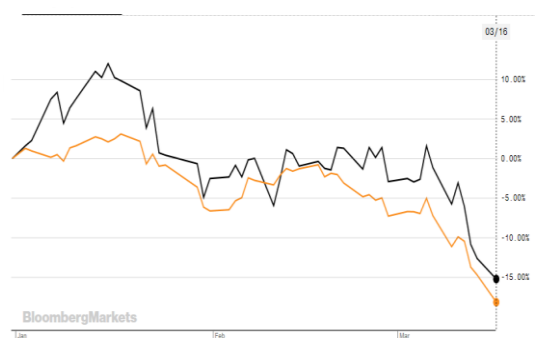
Meituan Dianping's stock had a strong start in early January 2020, touching upon a six month high of HK\$ 114.10 on 15 January 2020, before tumbling in late January and falling further in mid-March to a low of HK\$ 86.30.

Evidently, the food delivery and online travel booking giant has been affected by the outbreak of COVID-19 in early 2020, with disruption to China's food-delivery networks, complicating life for millions living in the cities and straining businesses integral to its economy.<sup>19</sup>

Yet, the results are two-fold. On the one hand, there would be potential for an increase in demand for food delivery, with people avoiding crowds and increasingly relying on takeaway delivery services during this period.

Meituan Dianping have responded innovatively to this, launching a "contactless delivery" initiative across China in January 2020, aiming to minimise the risk of potential infections caused by human-to-human contact and meet the needs of customers.<sup>20</sup> Indeed, driverless vehicles had already begun delivering fruits and vegetables to residents in Beijing's neighborhoods, as reported on 18 February 2020.<sup>21</sup>

On the other hand, the company relies heavily on its online hotel and travel booking services, and both the sales and revenue of these services have been slow due to the outbreak of the coronavirus in early 2020.<sup>22</sup>



<sup>17</sup> Company Info, <https://www.bloomberg.com/quote/700:HK?sref=jMV0XWp7>

<sup>18</sup> *Ibid.*

<sup>19</sup> Shelly Banjo, Claire Che, Kari Soo Lindberg, and Colum Murphy, "Chinese Abandon Food Delivery Fearing Drivers Will Spread Virus" (4 February 2020) *Bloomberg*. Available at: <https://www.bloomberg.com/news/articles/2020-02-03/chinese-abandon-food-delivery-fearing-drivers-will-spread-virus?sref=jMV0XWp7>

<sup>20</sup> Minghe Hu, "China's ecommerce giants deploy robots to deliver orders amid coronavirus outbreak" (21 February 2020) *TechAsia*. Available at: <https://www.techinasia.com/chinas-ecommerce-robots-delivery>

<sup>21</sup> Xu wei, "Meituan Dianping starts unmanned grocery deliveries on Beijing's open roads" (18 February 2020) *Yicai Global*. Available at: <https://www.yicaiglobal.com/news/meituan-dianping-starts-unmanned-grocery-deliveries-on-beijing-open-roads>

<sup>22</sup> "肺炎打擊酒店旅遊業務 美團今年收入恐大減" (24 January 2020) *Skypost*. Available at: <https://skypost.ulifestyle.com.hk/article/2550078/肺炎打擊酒店旅遊業務%20美團今年收入恐大減>

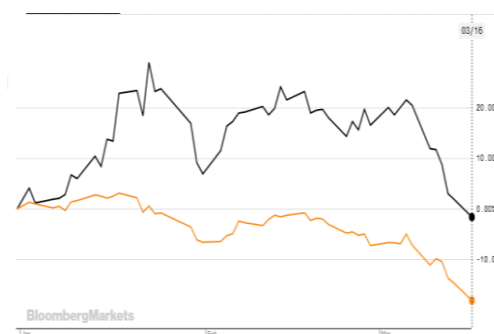


- The year to date stock prices of Meituan is **-19.33%**
- The one month stock prices of Meituan is **-18.53%**<sup>23</sup>
- Relative performance of the HSI over the period of time.<sup>24</sup>

d. Xiaomi Corp (Stock Codes: 01810.HK)

Xiaomi's stock had a great start to 2020, climbing steadily to a six month high of HK\$ 13.90 on 22 January 2020, before falling days later to HK\$ 11.52 and quickly rebounding to HK\$ 13.38 by 13 February 2020. Xiaomi's stock price then began to fall sharply on 5 March 2020 and as of 16 March 2020, Xiaomi's stock is priced at HK\$ 10.60.

The Chief Executive of Xiaomi stated that the disruption caused by COVID-19 in early 2020 has affected the financial and business performance of the company in the first quarter of 2020 owing to the fall of sales, but the company believes that demand will bounce back in the second and third quarters.<sup>25</sup>



- The year to date Stock prices of Xiaomi is **-5.38%**
- The one month Stock prices of Xiaomi is **22.14%**<sup>26</sup>
- Relative performance of the HSI over the period of time.<sup>27</sup>

e. Alibaba Health (Stock Codes: 00241.HK)

Alibaba Health's stock performed well in the beginning of 2020, gaining a year to date stock prices of +66.0 percent as of 27 February 2020. In early February 2020, Alibaba Health began to surge, reaching a high of HK\$ 15.98 on 6 March 2020, before falling to HK\$ 12.06 as of 16 March 2020.

Notably, on 7 February 2020, Alibaba Health's stock price closed almost 4 percent higher at HK\$ 12.06, after it announced that it would acquire the offshore holding vehicle of sister firm Ali JK Nutritional Products for HK\$ 8.07 billion to consolidate its position as flagship online healthcare services providers.<sup>28</sup>

<sup>23</sup> Company Info, [h https://www.bloomberg.com/quote/3690:HK?sref=jMV0XWp7](https://www.bloomberg.com/quote/3690:HK?sref=jMV0XWp7)

<sup>24</sup> *Ibid.*

<sup>25</sup> Weizhen Tan and Holly Ellyatt, "China confirms 15,152 new coronavirus cases, 254 additional deaths" (12 February 2020) *CNBC*. Available at: <https://www.cnbc.com/2020/02/13/coronavirus-latest-updates-china-hubei.html>

<sup>26</sup> Company Info, <https://www.bloomberg.com/quote/1810:HK?sref=jMV0XWp7>

<sup>27</sup> *Ibid.*

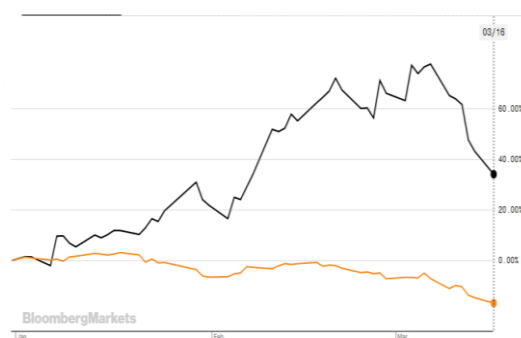
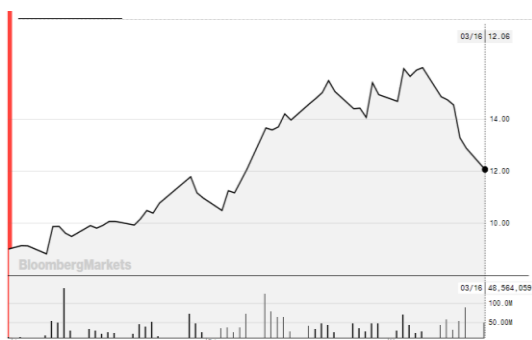
<sup>28</sup> Wang Hai, "AliHealth Gains on Plan to Acquire Sister Healthcare Platform Ali JK ZNS for USD1 Billion" (7 February 2020) *YiCai Global* Available at: <https://yicaiglobal.com/news/alihealth-gains-on-plan-to-acquire-sister-healthcare-platform-ali-jk-zns-for-usd1-billion>



Indeed, Alibaba Health is one of the very few listed companies in Hong Kong which have overcome the market's fear of the widespread coronavirus in early 2020, and has outperformed other stocks, as well as the Hang Seng Index, over this period.

This is owing to digital consultations becoming increasingly popular in the Chinese market,<sup>29</sup> considering the following factors:

- The increasingly desired long-distance diagnosis services in the current climate and Alibaba Health's new offering of online medical consultation services to reduce unnecessary hospital visits and prevent cross infection, with the company reporting more than 100,000 consultation per day on 29 January 2020;<sup>30</sup>
- The reported collaboration between Alibaba Health and food and parcel delivery companies such as Tmall.com to provide one-to-one medicine delivery services;<sup>31</sup> and
- The Chinese government's strategic plan to provide affordable basic healthcare to all its citizens and the related growth in Alibaba Health's revenue, at a rate of 83 percent annually.<sup>32</sup>



- The year to date Stock prices of Ali Health is **+34.00%**
- The one month Stock prices of Ali Health is **-13.61%**<sup>33</sup>
- Relative performance of the HIS over the period of time <sup>34</sup>

<sup>29</sup> Zhang Yushuo, "Coronavirus to double value of China's online medical service sector" (11 February 2020) *Yicai Global*. Available at: <https://www.yicai.com/news/coronavirus-to-double-value-of-china-online-medical-service-sector>

<sup>30</sup> Chen DongXiao, Liu Kan, Lu Chuanying, and Zhou Yiqi "China's Fight Against COVID-19 Epidemic: A Decisive Campaign" (February 2020) *Shanghai Institutes for International Studies*. Available at: [https://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/kjgzbdffyq/P020200214683963246223.pdf](https://www.fmprc.gov.cn/mfa_eng/topics_665678/kjgzbdffyq/P020200214683963246223.pdf)

<sup>31</sup> "疫情憂慮增 吼阿里健康" (29 January 2020) *Wenweipo*. Available at <http://paper.wenweipo.com/2020/01/29/FI2001290020.htm>

<sup>32</sup> "How Baidu, Alibaba and Tencent aim to disrupt Chinese health care" (28 January 2020) *Forkast.News*. Available at: <https://forkast.news/baidu-alibaba-tencent-china-health-care-blo/>

<sup>33</sup> Company Info, <https://www.bloomberg.com/quote/241:HK?sref=jMV0XWp7>

<sup>34</sup> *Ibid.*