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HONG KONG LAUNCHES HANG SENG TECH INDEX

The Hang Seng TECH Index was launched on 27 July 2020 tracking the 30 largest HKEx-listed technology companies including Alibaba, Tencent Holdings, Xiaomi and Meituan Dianping. The new index is broader than most tech indexes covering traditional hardware and software companies as well as companies with high business exposure to five select technology themes: Internet, Fintech, Cloud, E-commerce and Digital.[1]

The development comes in a bid to meet the growing investment interest in tech stocks and reflects their growing dominance in the Hong Kong stock market. With a number of Chinese tech IPOs in the pipeline, the Hang Seng TECH Index is positioned as the next flagship index alongside the Hang Seng Index and the Hang Seng China Enterprises Index. The new tech index would have risen 36.2% in 2019 and 35.3% in the first half of 2020, according to the index's compiler.[2]

The move follows the Shanghai Stock Exchange's launch of the SSE STAR Market 50 Index on 23 July 2020, which tracks the 50 major stocks on the STAR Market (or the Shanghai Stock Exchange Science and Technology Innovation Board). The STAR market had listed 140 companies with a total market value of RMB2.79 trillion yuan at 22 July 2020.

Hang Seng TECH Index Constituent Stocks

The Hang Seng TECH Index tracks the 30 largest (by market capitalisation) of the 163 tech stocks listed on the Hong Kong Stock Exchange (**HKEx**). The number of HKEx-listed tech stocks has increased significantly due to the HKEx's 2018 reforms allowing the listing of new economy companies with weighted voting rights and secondary listing of Chinese tech stocks with primary listings on the New York Stock Exchange and Nasdaq (for details of the reforms, please see Charltons' note on the Impact of HKEx Listing Reforms of 2018[3]).

The target constituents for the new tech index include "homecoming Chinese companies" – US-listed Chinese stocks opting for a secondary listing on the Hong Kong Stock Exchange such as Alibaba, the largest company in the index. It will also include unicorns planning a Hong Kong listing and large/mid-caps with tech-enabled businesses. A key IPO will be the dual listing on the Shanghai STAR Market and the HKEx of Ant Group, Alibaba's financial services arm and the world's most valuable unicorn.[4] This is expected to pave the way for more Shanghai STAR and HKEx dual listings which offer the advantage of a Hong Kong exit for foreign private equity investors in Chinese tech unicorns.

The constituency of the Hang Seng TECH Index will be reviewed quarterly. A Fast Entry Rule also allows sizeable newly listed tech companies to be included in the index if

1 Hang Sang Indexes. 20 July, 2020. New Hang Seng TECH Index to Track Main Technology Players Listed in Hong Kong. Available at:https://www.hsi.com.hk/static/uploads/contents/en/news/pressRelease/20200720T160000.pdf

2 Ibid.

3 https://www.charltonslaw.com/hong-kong-law/impact-of-hkex-listing-reforms-of-2018/

4 BBC. 27 July 2020. Hong Kong launches share index of technology giants. At https://www.bbc.com/news/business-53549450.

the company's market capitalisation ranks among the top 10 existing constituents at the market close on its first trading day.

The top 10 constituents (by weighting) on launch included Alibaba, Tencent, Meituan Dianping, Xiaomi and three healthcare-focused tech companies: Sunny Optical, Ali Health and PA Good Doctor. The IT industry however dominates, with a 68.3% weighting distribution, followed closely by industrials (12.2%) and healthcare (9.1%).[5]

Opportunities for ETFs Tracking Hang Seng TECH Index

Press reports have focused on the opportunities the Hang Seng TECH Index provides for fund managers to introduce exchange traded funds (**ETFs**) tracking the new tech index. Funds tracking the new index will offer exposure to the tech giants Alibaba, Xiaomi and Meituan which are not constituents of the main Hang Seng Index.

Hong Kong Tech Sector Growth

The tech sector has grown rapidly over the past decade and amid the increased reliance on technology due to COVID-19.[6] With the introduction of work-from-home arrangements in many jurisdictions, companies such as Zoom have surged in popularity. Zoom saw daily users increase to around 200 million in March 2020 from 10 million in December 2019[7] and profit of US$27 million in the first quarter of the year, exceeding its total profit for the whole of the previous financial year.[8]

As for the growth of the tech sector in Hong Kong, the market capitalisation of tech companies listed on HKEx's Mainboard increased from 14.3% at the 2018 year end to 33.2% at the end of June 2020, while the value of tech stocks traded as a percentage of the value of all shares traded rose from 18.5% in 2018 to 27.6% in the first half of 2020.[9]

Trade tensions between the US and China have been another factor leading US-listed Chinese tech giants to look at listings on the Hong Kong Stock Exchange and the Shanghai STAR Market. Secondary listings on HKEx of US-listed tech companies have included those of Alibaba which raised US$12.9 billion in November 2019 and JD.com and NetEase which raised US$3.87 billion and US$2.7 billion, respectively, in June 2020.

5 Hang Seng Indexes. See note 1 above.
6 Wakabayashi, D., Nicas, J., Lohr, S., & Isaac, M. Big Tech Could Emerge From Coronavirus Crisis Stronger Than Ever. March 23, 2020. Available at: https://www.nytimes.com/2020/03/23/technology/coronavirus-facebook-amazon-youtube.html
7 Evans, D. How Zoom became so popular during social distancing. April 4, 2020. Available at: https://www.cnbc.com/2020/04/03/how-zoom-rose-to-the-top-during-the-coronavirus-pandemic.html
8 https://www.bbc.com/news/business-52884782
9 Hang Sang Index. New Hang Seng TECH Index to Track Main Technology Players Listed in Hong Kong Press Release. July 20, 2020. Available at: https://www.hsi.com.hk/static/uploads/contents/en/news/pressRelease/20200720T160000.pdf

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