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**Hong Kong Capital Market
Latest Regulatory Update**

Edward Au, Southern Region Managing Partner, Deloitte China
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Edward Au is Deloitte China Southern Region managing partner. He is responsible for Deloitte China's offices in Southern China, which encompasses Hong Kong SAR, Changsha, Guangzhou, Hainan, Macau SAR, Shenzhen and Xiamen, and with a focus on the development of the practice in the Greater Bay Area. He drives service and practice transformation, fosters talent development and advances the Firm's presence across the region.

He was also co-leader of the Firm's National Public Offering Group and has been involved in various debt and equity offering activities in Hong Kong, the US, and Singapore. He is one of the firm's spokespeople on IPOs and capital market in media interviews and a frequent speaker at external seminars.

Edward has been a partner of Deloitte China since 2003 with extensive experience in auditing multinational corporations, public companies and enterprises in Hong Kong, Singapore, the US, and the Chinese Mainland.

Edward also contributes to organizations and the community in Hong Kong through his service to professional bodies including the Hong Kong Institute of Certified Public Accountants (HKICPA), Hong Kong Red Cross and the Construction Industry Council of Hong Kong.

Professional Qualifications

- Certified public accountant in HK and the State of Washington (US)
- Certified Practising Accountant of CPA Australia
- Fellow member of the HKICPA
- Fellow member of Association of Chartered Certified Accountants (ACCA)
- Member of American Institute of Certified Public Accountants (AICPA)
- Chartered Global Management Accountant (CGMA)

Public Appointments

- Council member of the HKICPA
- Chairman of the HKICPA's Corporate Finance Advisory Panel
- Member of Audit Committee of the HKICPA
- Member of Registration and Practising Committee of the HKICPA
- Member of Audit and Risk Committee of Hong Kong Red Cross
- Member of Investment Task Force of Construction Industry Council
- Member of Advisory Committee of Division of Business and Management at Beijing Normal University-Hong Kong Baptist University United International College

Key Regulatory Landscape

Hong Kong Capital Market

Latest key regulatory developments



Digitalization

- Launch of e-Forms to facilitate listing applications and streamlining the submission of documents to the Listing Division
- Proposals to introduce a paperless listing and subscription regime, online display of documents, and reduction of the types of documents on display
- Modernising Hong Kong's IPO settlement process



Streamlining

- Codification of general waivers and principles relating to IPOs and listed issuers and minor rule amendments



Diversification

- Consultation conclusions on corporate weighted voting rights (WVR) beneficiaries



Governance

- Publication of updated Guidance Letter HKEX-GL86-16 for IPO applicants

Hong Kong Capital Market Digitalization

Forms relating to Directors and Supervisors, Authorized Representatives and Company Secretaries

- Contact Details Form For Director/ Supervisor/ Authorized Representatives/ Company Secretary/ Compliance Officer
- Director's/ Supervisor's Declaration and Undertaking

Forms relating to Announcements and Trading Arrangements

- Size Tests for Notifiable Transactions and Connected Transactions
- Trading Arrangement Form

HKEX e-Forms

Forms related to IPOs

- Listing Application Form
- New Listing Particulars
- Sponsor Engagement Notification
- New Listing Particulars – Debt Securities

Forms relating to Blackout Period

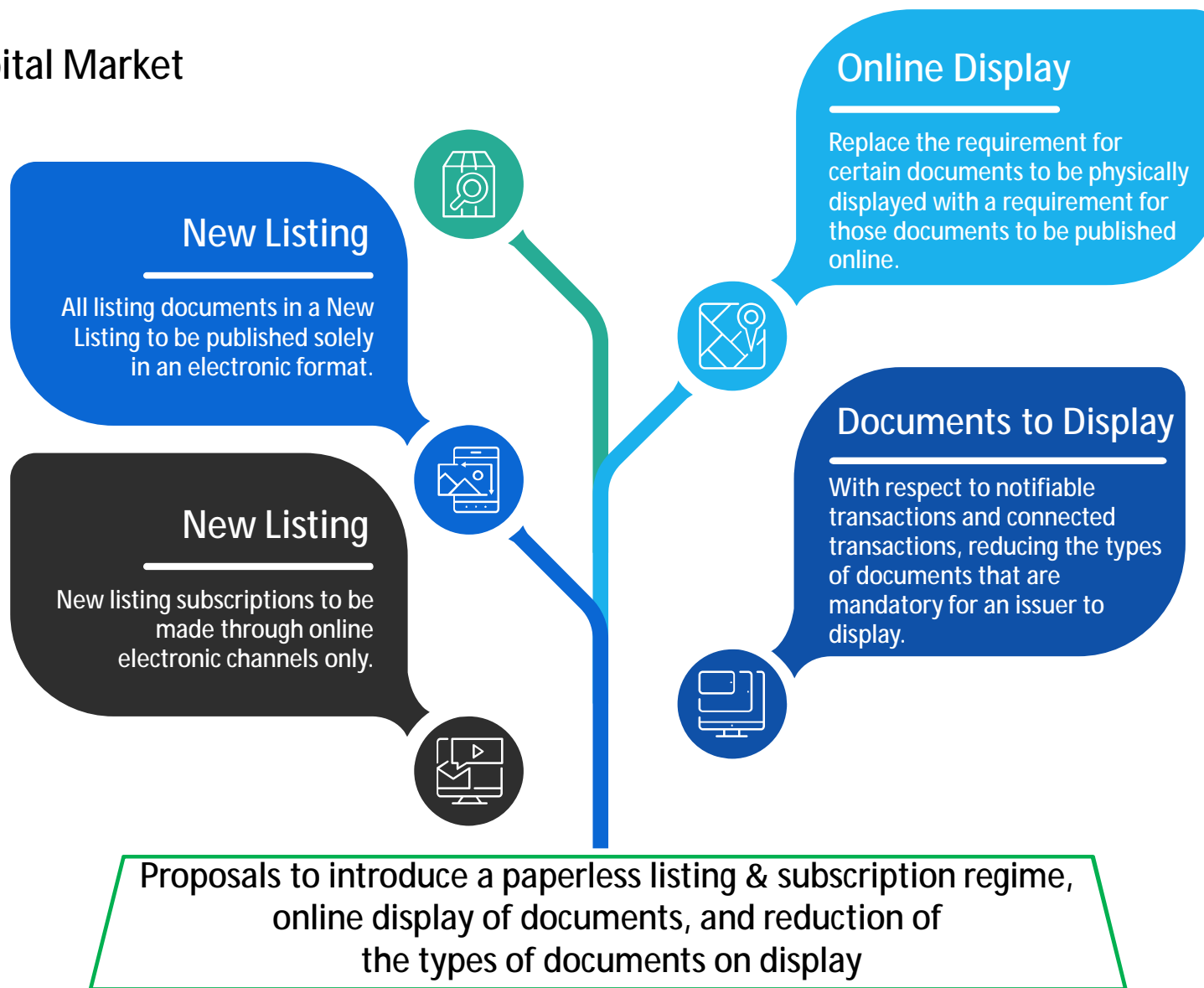
Blackout Period Notification Form

Forms relating to Application for Listing of Securities

Formal Application (For Equity Securities).

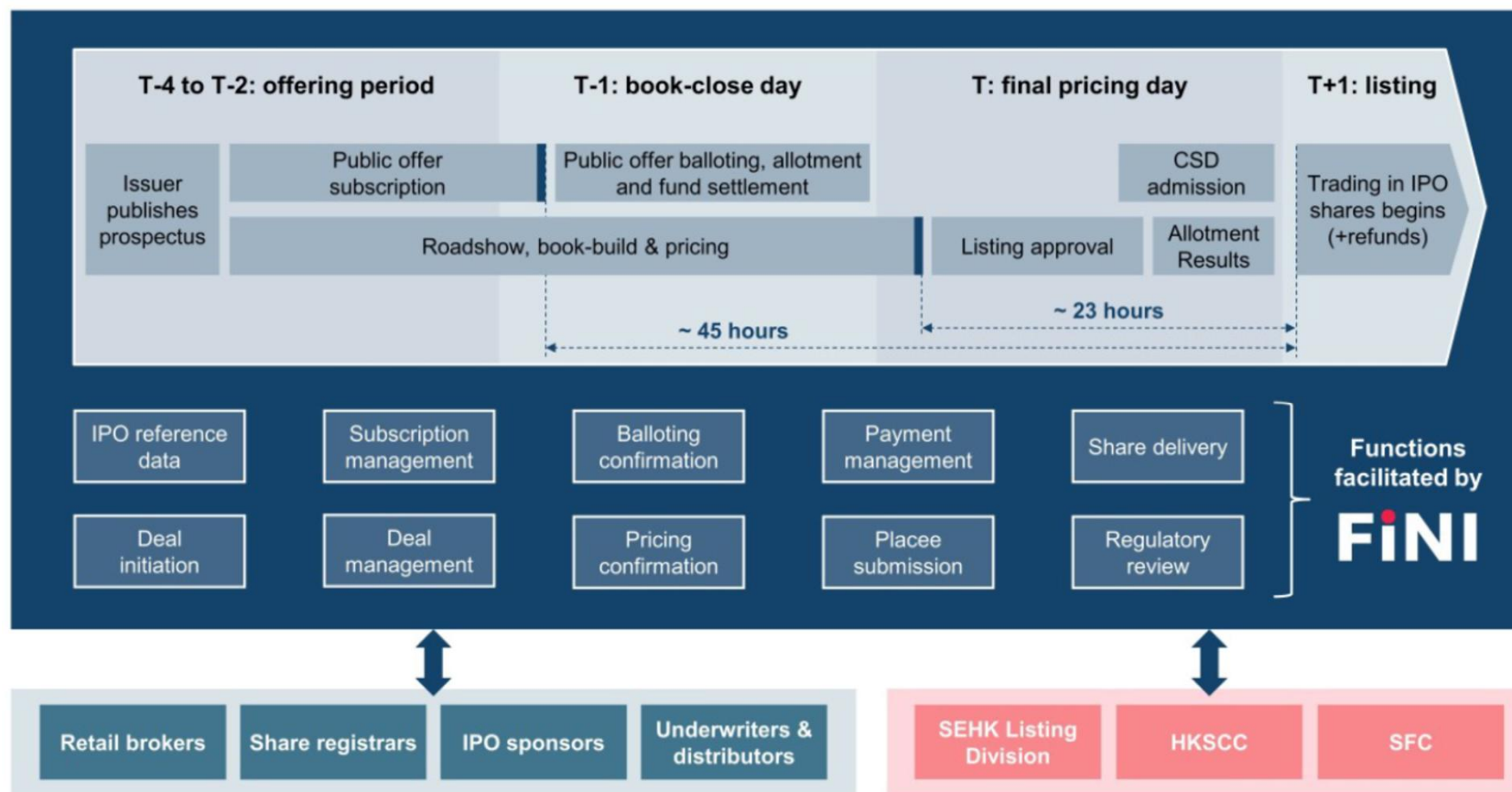
Transitional period from 29 November to 31 December 2020 and effective 1 January 2021

Hong Kong Capital Market Digitalization



Hong Kong Capital Market Digitalization

Target settlement timetable for Hong Kong IPOs, supported by the FINI platform



FINI (Fast Interface for New Issuance)

A secure web-based portal for market participants and authorities to interact digitally and seamlessly for end-to-end IPO settlement process in Hong Kong.

Launch is expected no earlier than the second quarter of 2022.

Feedback on the Concept Paper by 15 January 2021.

Source: Concept paper "Modernising Hong Kong's IPO settlement process" published by HKEX on 16 November 2020.

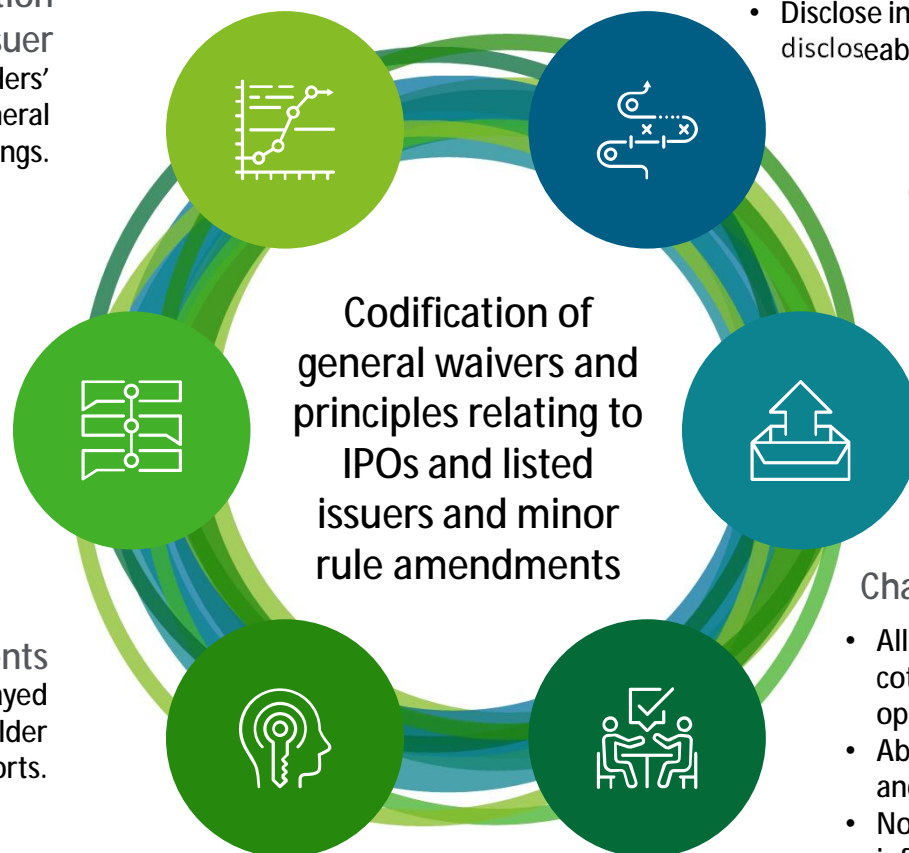
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Hong Kong Capital Market Streamlining Process

Bonus or capitalization issues by a PRC issuer
Specifically exempt from shareholders' approvals in general meetings and separate class meetings.

Consideration ratio calculation for dual listed PRC issuers
Modify the calculation of the market capitalization of a PRC issuer's A or B shares by referencing to the market price of its A or B shares.

Inclusion of stock code in documents
Allow an issuer's stock code to be displayed prominently in the corporate or shareholder information section of financial reports.



Disclosure of financial information of subsidiaries or businesses acquired or to be acquired after trading record period

- Acquisition is not material
- Certificate of exemption from the SFC has been obtained
- Disclose information required for the announcement for a discloseable transaction

Disclosure of financial information of overseas banking companies

- Primarily regulated by a overseas regulator which has functions similar to the HKMA, and provides adequate supervision
- Alternative disclosures on capital adequacy, loan quality, loan provisioning and guarantees, contingencies and other commitments have been made in the listing document

Change of financial year period

- Allow its holding company's financial year to be coterminous with that of all or a majority of its major operating subsidiaries
- Able to satisfy all requirements under rule 8.05 before and after the proposed change
- Not materially affect the presentation of financial information or result in any omission of material information or for the assessment of the suitability

Hong Kong Capital Market Streamlining Process

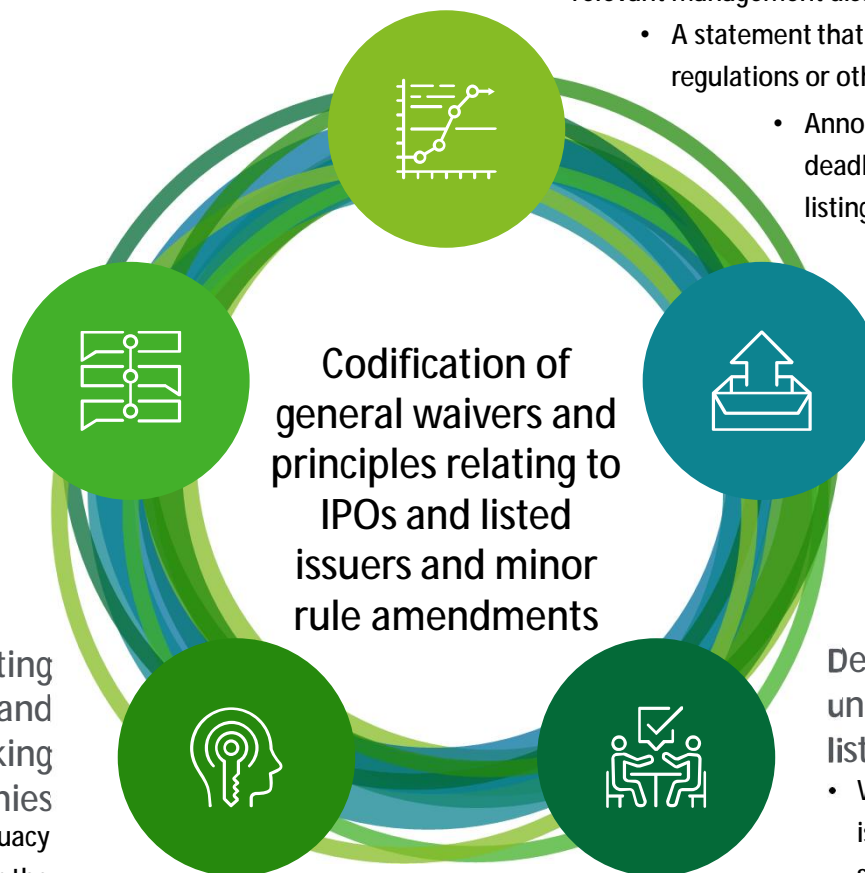
Publication of preliminary results announcements and distribution of financial reports

- Disclose financial information of the latest financial year or period with the relevant management discussion and analysis
- A statement that the dis-application will not result in breach of laws and regulations or other regulatory requirements
- Announce before the prescribed publication or distribution deadline that the relevant information have been included in the listing document

Share option scheme limited for a listed issuer's subsidiary to be spun off for separate listing

Modify the scheme limit requirement by allowing SpinCo to determine its share option scheme limit based on its shares in issue as at the date of listing.

Working capital statement in listing documents and transaction circulars of banking companies or insurance companies
Waiver if relevant solvency and capital adequacy requirements and solvency margin ratios for the latest three financial years are disclosed.



Acquisition of aircraft by airline operators

- Disclosure of the same is subject to contractual confidential provisions
- Reasons for the waiver and make appropriate alternative disclosure in announcement and/or circular
- Make appropriate disclosure in its next financial report

Determination of exercise price of options under a share option scheme adopted by dually listed issuers

- Waive the exercise price requirement by allowing dually listed issuers (i.e. A+H issuers) to determine the exercise price of A share option in accordance with the PRC laws and regulations, which would better reflect the market value of the A shares

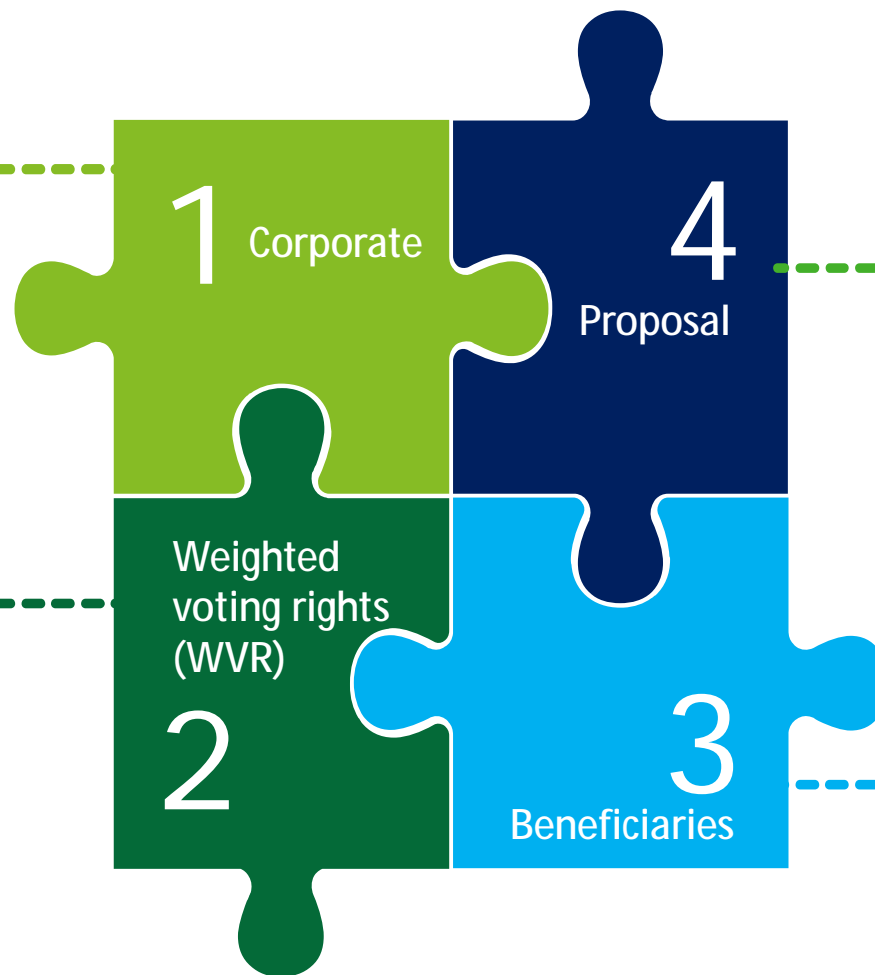
Hong Kong Capital Market Diversification

Not going ahead..

Give more time for the market to develop a better understanding of the regulatory approach towards listed WVR companies and their controllers, and for regulators to monitor that the existing regime operates as intended

Grandfathered rule

- Modification of the definition of Grandfathered Greater China Issuer for secondary listing to additionally encompass Qualifying Corporate WVR Issuers (“QCWVR”)
- QCWVR controls the WVR structure and is the largest shareholder in terms of shareholders’ votes, and controls at least 30% of total shareholders’ votes.



Way forward

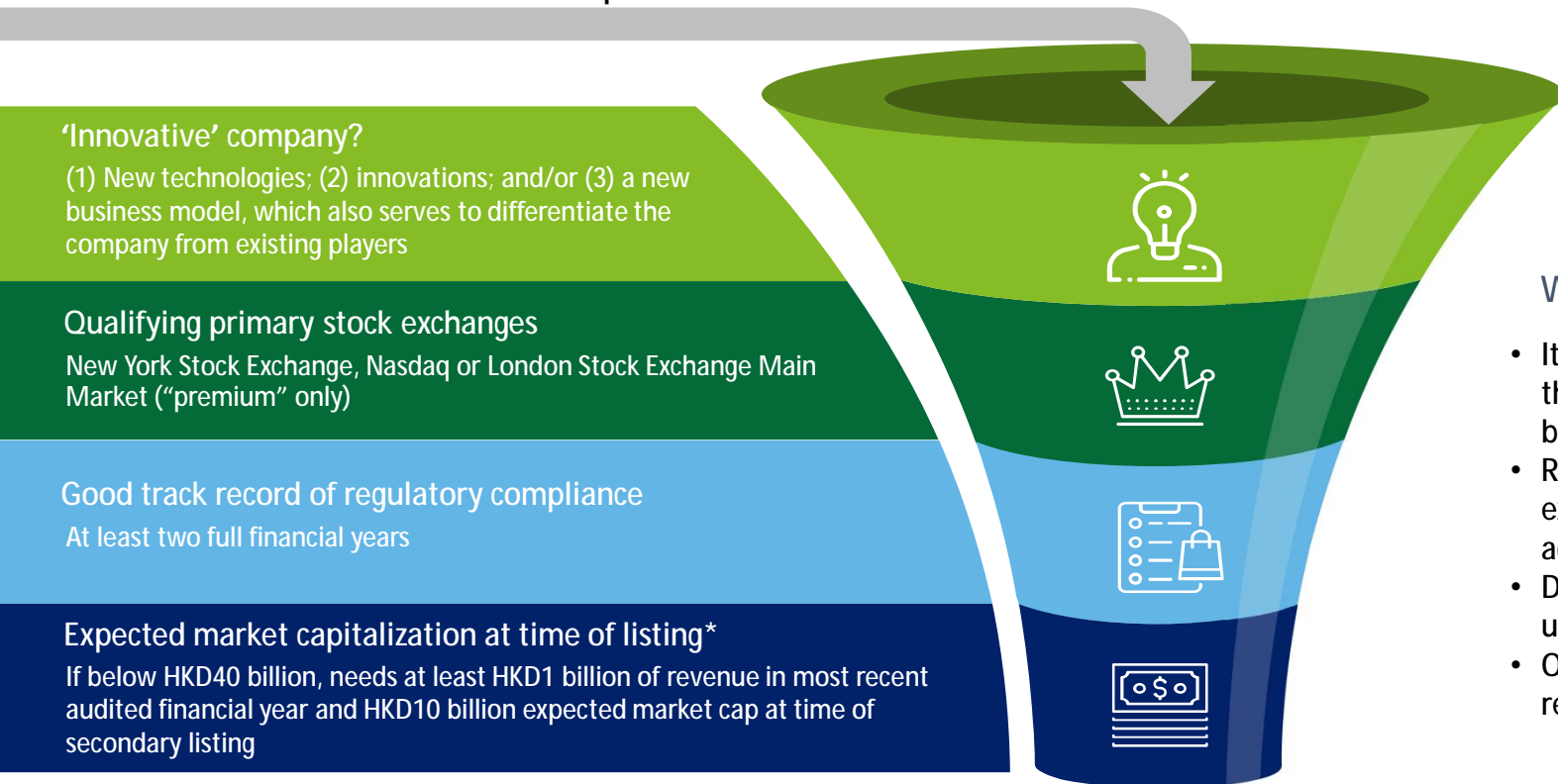
Propose to normalize the eligibility requirements that apply to Greater China Issuers that do not have WVR structures and seek to secondary list under Chapter 19C.

19C Requirements apply

QCWVR Issuers would be subject to all other existing requirements of Chapter 19C.

Hong Kong Capital Market Diversification

Chinese concept stocks



'Innovative' company?

(1) New technologies; (2) innovations; and/or (3) a new business model, which also serves to differentiate the company from existing players

Qualifying primary stock exchanges

New York Stock Exchange, Nasdaq or London Stock Exchange Main Market ("premium" only)

Good track record of regulatory compliance

At least two full financial years

Expected market capitalization at time of listing*

If below HKD40 billion, needs at least HKD1 billion of revenue in most recent audited financial year and HKD10 billion expected market cap at time of secondary listing

Chapter 19C (Main Board) In effect since 30 April 2018

What is an 'innovative' company?

- Its success is demonstrably attributable to the application, to the company's core business, of (1), (2) and/or (3);
- R&D is a significant contributor to its expected value and constitutes a major activity and expense;
- Demonstrable success attributable to its unique features/IP; and/or;
- Outsized market cap./intangible asset value relative to tangible asset value.

Qualified to seek listing under Chapter 19C



*19C.03 Rules 8A.04 to 8A.06 do not apply to a qualifying Issuer seeking a secondary listing under Chapter 19C.



Knowledge Check

What are the enhanced corporate governance for WVR companies in Hong Kong?



A A mandatory corporate governance committee comprised of INEDs

B A compliance adviser on a permanent basis

C Directors and senior management to undergo appropriate training on WVR and its associated risks

D A and B only

E A, B and C

Hong Kong Capital Market Diversification



Hong Kong Capital Market Diversification



Hong Kong Capital Market Governance

Corporate governance (“CG”) and environmental, social and governance (“ESG”)

- Mechanisms to meet the requirements on CG and ESG are in place well in advance of listing.
- The board of directors is collectively responsible and is expected to be involved in the formulation of such mechanisms and related policies.
- Appoint directors (including independent non-executive directors (“INED”)) as early as possible in the formulation of the necessary mechanisms and policies.



Business section

A statement on the compliance culture, including measures and processes to ensure such culture is embedded into everyday workflow and set the expectations for individual behavior across the organization.

Overboarding and time commitment

Disclose the reason an INED would be able to devote sufficient time to the board for holding his/her seventh (or more) listed company directorships.

Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications (HKEX-GL86-16)

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