

**Latest listing trends in
Mainland and HK for new
economy companies**

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Contact



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Edward Au has been Audit Partner of Deloitte China since 2003 and has extensive experience in auditing companies in Hong Kong, Singapore, the U.S., and the Chinese Mainland.

He is also Co-Leader of National Public Offering Group of the China Firm and has been actively involved in various debt and equity offering projects in Hong Kong, the U.S., and Singapore. He is also Vice Chairman of the Corporate Finance Advisory Panel of Hong Kong Institute of Certified Public Accountants.

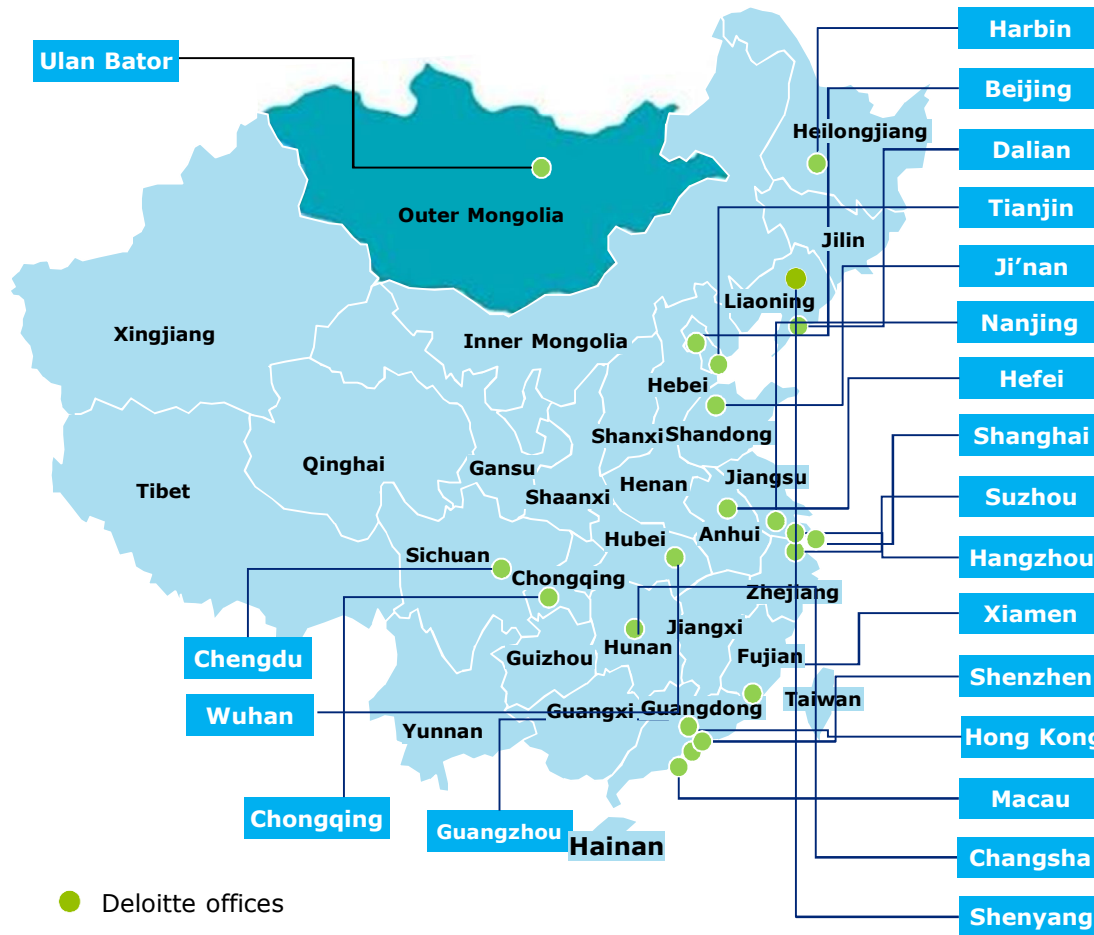
He focuses on International Finance Reporting Standards/ U.S. Generally Accepted Accounting Principles and reporting matters related to Hong Kong Stock Exchange/ U.S. Securities & Exchange Commission. In addition, he has sound experience in leading our teams in the region to serve local and multinational clients from a variety of industries.

Education and Professional Qualification

- Member of the American Institute of Certified Public Accountants and a Certified Public Accountant in the State of Washington.
- Fellow member of the Association of Chartered Certified Accountants (ACCA)
- Fellow member of the Hong Kong Institute of Certified Public Accountants

Deloitte China National Public Offering Group

Your Winning Team for Listing in Capital Markets



Deloitte China at a Glance

Our China Practice

- Over 14,000 people in 21 offices
- Serving one-fifth of all companies listed on the Hong Kong Stock Exchange (HKEX)
- Leading position in public offering services in key capital markets and was the reporting accountant for the global largest IPOs in both 2010 (Agriculture Bank of China) and 2011 (Glencore International Plc)
- Advising the Ministry of Finance in the Chinese Mainland on the development of international accounting standards and tax systems since 1993
- Leading the HK IPO services (in terms of accumulated no. of IPOs and proceeds raised on the Main Board since 2009)
- Leading the U.S. IPO services (in terms of accumulated no. of IPOs for Chinese companies since 2006)

We have achieved many industry firsts:

- The first to pioneer the listing of RMB-denominated REIT (Hui Xian REIT)
- The first to bridge the gap between Japanese Generally Accepted Accounting Principles and the IFRS and assist on HKEX (SBI Holdings, Inc.)
- The first fixed single investment trust from Hong Kong's hospitality industry in HK (Langham Hospitality Investments)
- The first state-owned distressed asset management company in HK (China Cinda)
- The first Mainland-based largest death care service provider in HK (Fu Shou Yuan)
- The first Chinese private hospital operator in HK (Phoenix Healthcare)
- The first nuclear power producer in China in HK (CGN Power)
- The first to list a Chinese fintech company at the New York Stock Exchange (Yirendai)
- The first Chinese express company listed in the U.S. (ZTO Express)

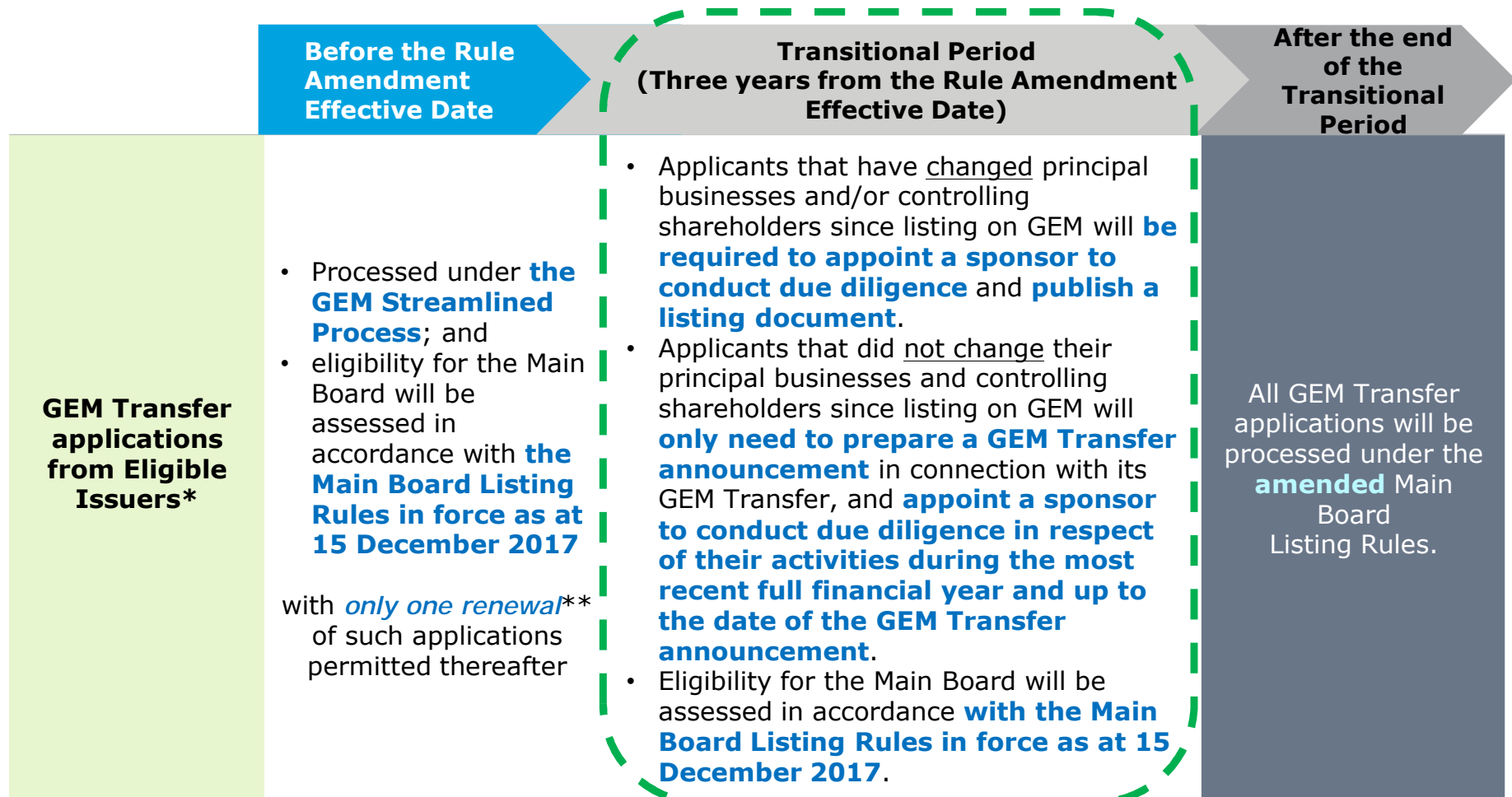
The Rules Changes

Updated listing requirements for MB and GEM

Effective 15 February 2018



The transitional arrangements for GEM transfer applications Effective 15 February 2018



*Eligible Issuers include all issuers listed on GEM as at 16 June 2017, and all GEM applicants who have submitted a valid listing application for listing on GEM as at 16 June 2017 and subsequently listed on GEM pursuant to such application or a renewal of such application.

**All GEM Transfer applications that are submitted before the Rule Amendment Effective Date and have not lapsed, been rejected or returned as at the Rule Amendment Effective Date.

A new listing regime since 30 April 2018

3 new chapters in the Main Board Listing Rules for biotech issuers, companies with weighted voting rights (WVR) and a new concessionary secondary listing route

1. Chapter 18A - biotech companies that do not meet any of the MB financial eligibility tests		Companies from the innovative sectors (Min. expected market capitalisation of HK\$10 billion at listing time)	
		2. Chapter 8A - with WVR structures	3. Chapter 19C - new secondary listing regime
<ul style="list-style-type: none"> • A minimum expected market capitalisation of HK\$1.5 billion at time of listing • Has been in operation in its current line of business for at least two financial years under substantially the same management prior to listing • Must meet the available working capital requirements to cover at least 125% of the issuer's costs (including general, administrative, operating and R&D costs) for at least 12 months from the date of publication of its listing document after taking the IPO proceeds into account • Must have previously received meaningful third party investment from at least one sophisticated investor at least six months before the date of the proposed listing* 		<ul style="list-style-type: none"> • Only applications for listing from new applicants will be considered • If below HK\$40 billion of expected market capitalisation at time of listing, it would need to have at least HK\$1 billion revenue in its most recent audited financial year ("Revenue Test") • WVR shares must not seek for a listing • The voting power attached to WVR shares to be capped to not more than 10 times of the voting power of ordinary shares 	<ul style="list-style-type: none"> • To attract Greater China issuers that have been primary listed on the New York Stock Exchange, Nasdaq or the London Stock Exchange's Main Market ("premium" only) for at least two full financial years to list in HK • If the secondary listing applicants with a WVR structure and/or is a Greater China issuer will also have to meet the Revenue Test if it has an expected market capitalisation below HK\$40 billion at time of secondary listing • A non-Greater China issuer without a WVR structure must have an expected market capitalization at time of secondary listing of at least HK\$10 billion • Listing applications can be submitted on a confidential basis.

*HKEX Guidance Letter HKEX-GL92-18

Other developments of the IPO and capital markets of the Chinese Mainland and HK

New listing requirements of MB and GEM were effective 15 February 2018.

IPO applications under the new MB listing rules have been made since late April. The first mega listing of weighted voting rights company was debuted in July.

CSRC actively promotes the introduction of the Chinese depository receipt (CDR) by seeking the market's opinion in a pilot program for the return listings of red-chips public companies from seven industries. It also promulgated numerous rules to complete the foundation of introducing CDR to pilot innovative companies. The government's work report also stated the support for IPO of quality innovative companies. The first CDR may be issued in Q3.

In April, National Equities Exchange and Quotations (NEEQ) and HKEX signed a memorandum of understanding in Beijing to officiate the launch of a "NEEQ + H-share" model. NEEQ issuers can enjoy greater convenience when seeking for a HK listing. Such a model would provide a valuation basis for NEEQ and stimulate capital inflow for resolving its liquidity issue eventually.

Singapore Exchange launched the second round of market consultation on the listing of dual-class structures. Some proposals were said to be more relaxing than HK.

In June, two H-share companies were approved to become the pilot companies for converting their domestic shares to H-shares. The move would help improve the valuation of H-shares, and will make H-share listing an alternate listing approach for Chinese private companies.

The boom of H-share companies' return listings to A-share continues. HK-listed companies continues to apply for a direct listing or spin-off listing in A shares market.

The statutory mandate for the reform of the registration-based share issuance regime has been extended to 29 February 2020. Following the establishment of the new Public Offering Review Committee in the fourth quarter of last year, the pace of A-share IPO activities have been slowed down.

The number of companies pending for Mainland's IPO review dropped further to a new low of about 300. Though the CSRC said in May that there was no change to the IPO review policies, brokerages were informed of the latest '51 IPO review guidelines' in June which set out many review parameters. The rejected rate is expected to stay high.

The capital inflow through HK to the Mainland market may be boosted further in future upon the increase of daily quota for the Mainland-HK market connectivity programmes by four folds and the inclusion of A shares into the MSCI. The Shanghai-London Stock Connect is expected to be launched within this year as well.

NEEQ and HKEX signed a MOU in late April to provide convenience for NEEQ issuers to list in HK

NEEQ companies are allowed to issue H shares overseas and list in HK without delisting from the National Equities Exchange and Quotations (NEEQ)

No review and special conditions were set for this scheme

NEEQ issuers can leverage on both the domestic and overseas capital markets for facilitating capital operations and access for their own business development

The H-share model is going to be a listing option for Mainland private companies following the successful launch of the H-share full circulation trial for H-share issuers by the CSRC

In form of trial

- To be implemented in order, i.e. launching one trial company after another
- Will only allow three trial companies at most

Abide to the market's decision

- The participating companies can devise its 'fully convertible' proposal that will benefit the long-term interests of the company with their shareholders, as long as they can fulfill the requirements of the trial programme

Application for becoming a trial company

- The application can be submitted to the CSRC according to the required procedures, or together with an overseas refinancing or initial public offering application
- The CSRC will accept and review the applications according to the existing overseas listing procedures and requirements

Other companies that can fulfill the trial programme

- For companies that can fulfill the requirements of the trial programme but are not accepted in this round of trial, their applications will be re-considered when the 'fully convertible H-share programme' is being promoted again

The 1st CDR issuer is still expected to be debuted this year



May be exempted from requirements on profitability, unrecovered loss, etc.



Many Chinese concept stocks and unicorns with VIE structures can overcome various legal and regulatory obstacles including the restrictions over dual-class structures when issuing CDR

Item	Requirements
Basic requirements	Businesses that are dovetail with national strategies, with core competitive edges and high market recognition
Industry requirements	Engage in high-tech and emerging strategic industries such as internet, big-data, cloud computing, artificial intelligence, software & integrated circuit, high-end equipment manufacturing and biopharmaceuticals
Fund-raising requirements	<div style="display: flex; justify-content: space-between;"> <div style="background-color: #4682B4; color: white; border-radius: 15px; padding: 10px; text-align: center;"> <p>Large overseas-listed red chips*</p> </div> <div style="background-color: #D3D3D3; border-radius: 15px; padding: 10px;"> <p>The market capitalization should not be less than RMB200 billion</p> </div> </div>
	<div style="display: flex; justify-content: space-between;"> <div style="background-color: #008080; color: white; border-radius: 15px; padding: 10px; text-align: center;"> <p>Private innovative companies (including those that are registered overseas and on the Mainland)</p> </div> <div style="background-color: #696969; border-radius: 15px; padding: 10px;"> <ul style="list-style-type: none"> • A business revenue of the most recent financial year that is more than RMB3 billion and a market valuation that is more than RMB20 billion; or • Have a rapid growth in business revenue, own the research and development rights, and leading technology in the world, and a relative edge over its peers </div> </div>

*Red chips are companies that are registered overseas, and the location of the principal business operations is on the Mainland

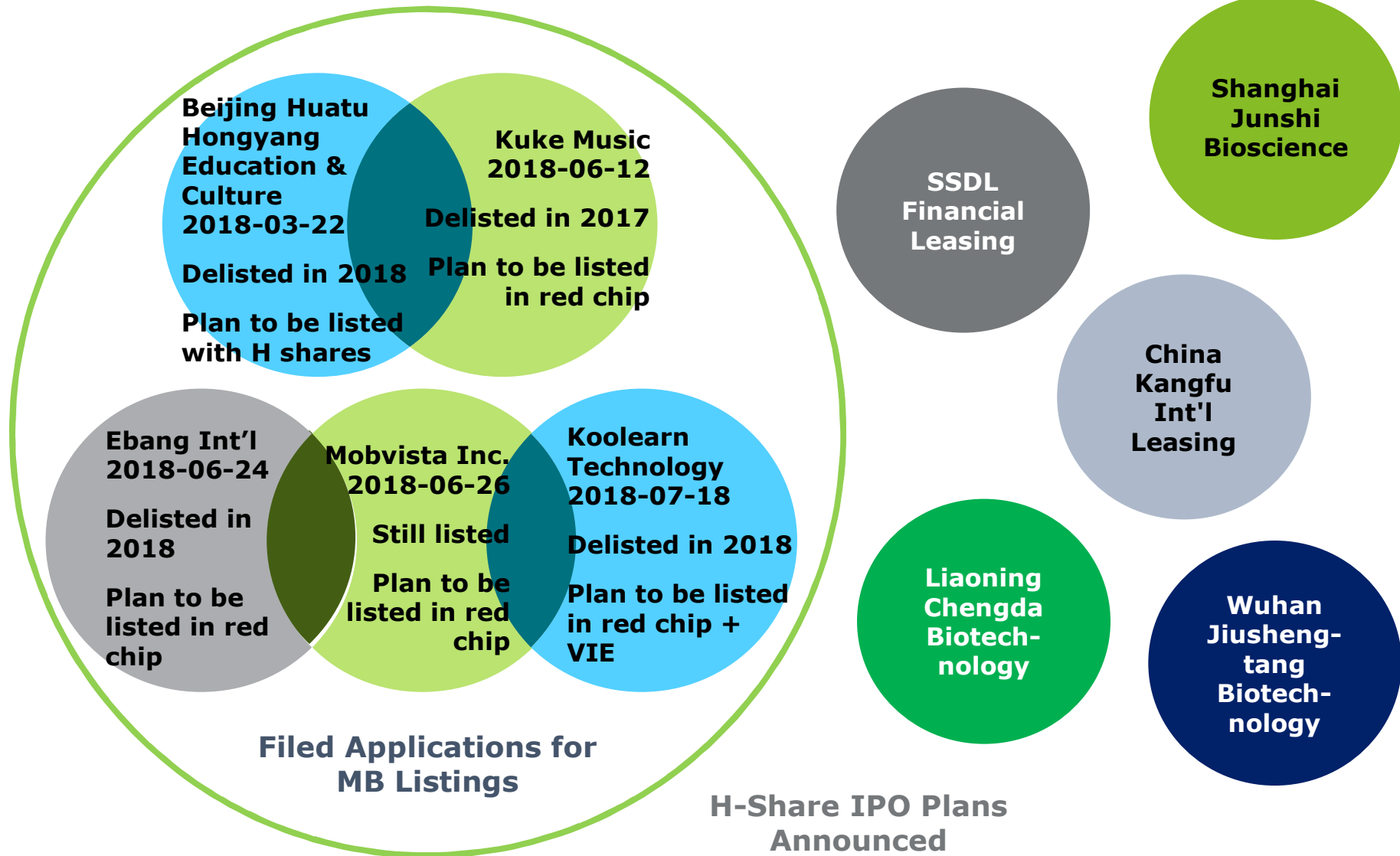
The Market Response

So far no new economy companies have filed the CDR listing applications after Xiaomi under the new rules

A-share IPO activities are expected to slow down in 2018 to prevent problem companies from filing listing applications

<p>On 6 June, the CSRC officially issued 'the Measures for the Administration of Issuance and Transaction of DPs (pilot programme)', amended and promulgated eight sets of supporting documents, including the management measures for IPO and going public in the stock market and on ChiNext.</p>	<p>On 30 March, the General Office of the State Council publicized the notice on 'Several Opinions of CSRC on the Pilot Programme on the Issuance of Shares or Depositary Receipts by Domestic Innovative Enterprises'.</p>	<p>The listing application reviews of Foxconn Industrial Internet and Contemporary Amperex Technology set a record for the A-share market. In average, it took the CSRC one year and three months to complete an IPO application review in 2017.</p>	<p>WuXi AppTec completed the IPO on the Shanghai Stock Exchange in early May.</p>
<p>On the same day, 'the Measures for the Administration of Issuance and Transaction of DPs (pilot programme)' was passed at the fourth meeting of 2018 of the Chairman's Office of the CSRC and became immediate effective.</p>	<p>Starting from 7 June, innovative companies that can fulfill the requirements of the pilot programme can apply for the issuance of CDR with the CSRC.</p>	<p>The CSRC accepted Xiaomi's application for CDR issuance on 7 June, and then disclosed Xiaomi's CDR application on 11 June. Xiaomi updated its filing upon receiving CSRC's feedbacks.</p>	<p>The first batch of open-ended funds which focus on investing on IPOs and CDRs of overseas-listed tech giants were launched.</p>

More existing and former NEEQ issuers, including innovative companies are aiming at going public in HK



More new listings from new economy companies are coming in 2H 2018

At least five mega IPOs raising over HK\$10 billion each are expected to be debuted.

Most of them will have the new economy concepts related to the financial services, technology and consumer business sectors.



It is expected that about 10 unicorns are to be listed in HK.



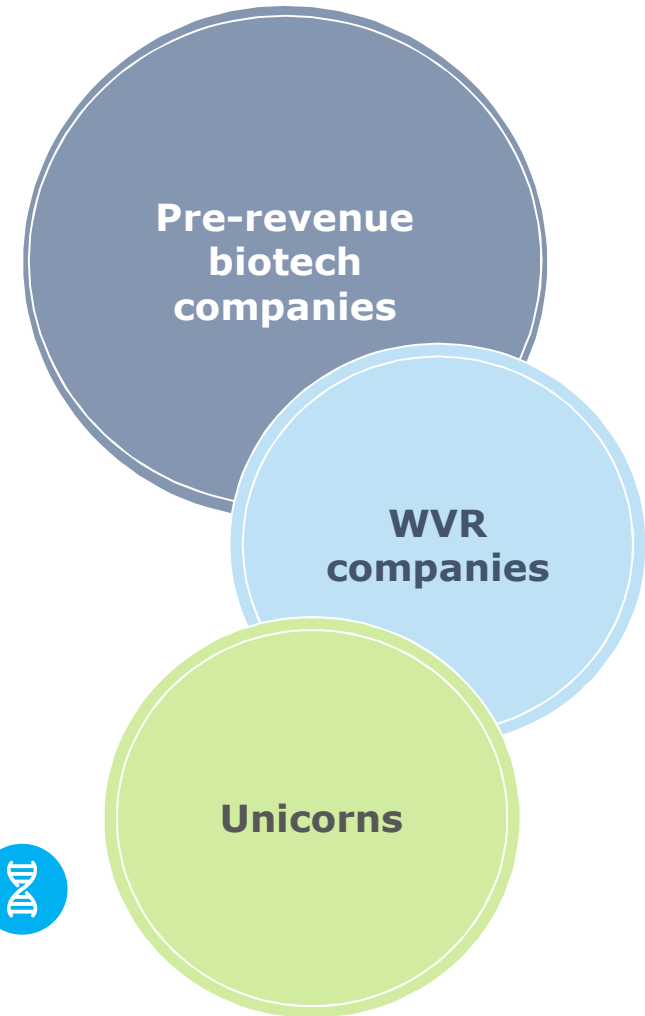
1st WVR company went public in July.
Another four to five WVR companies are anticipated to be listed within the year.



1st pre-revenue biotech company is to be listed in August.



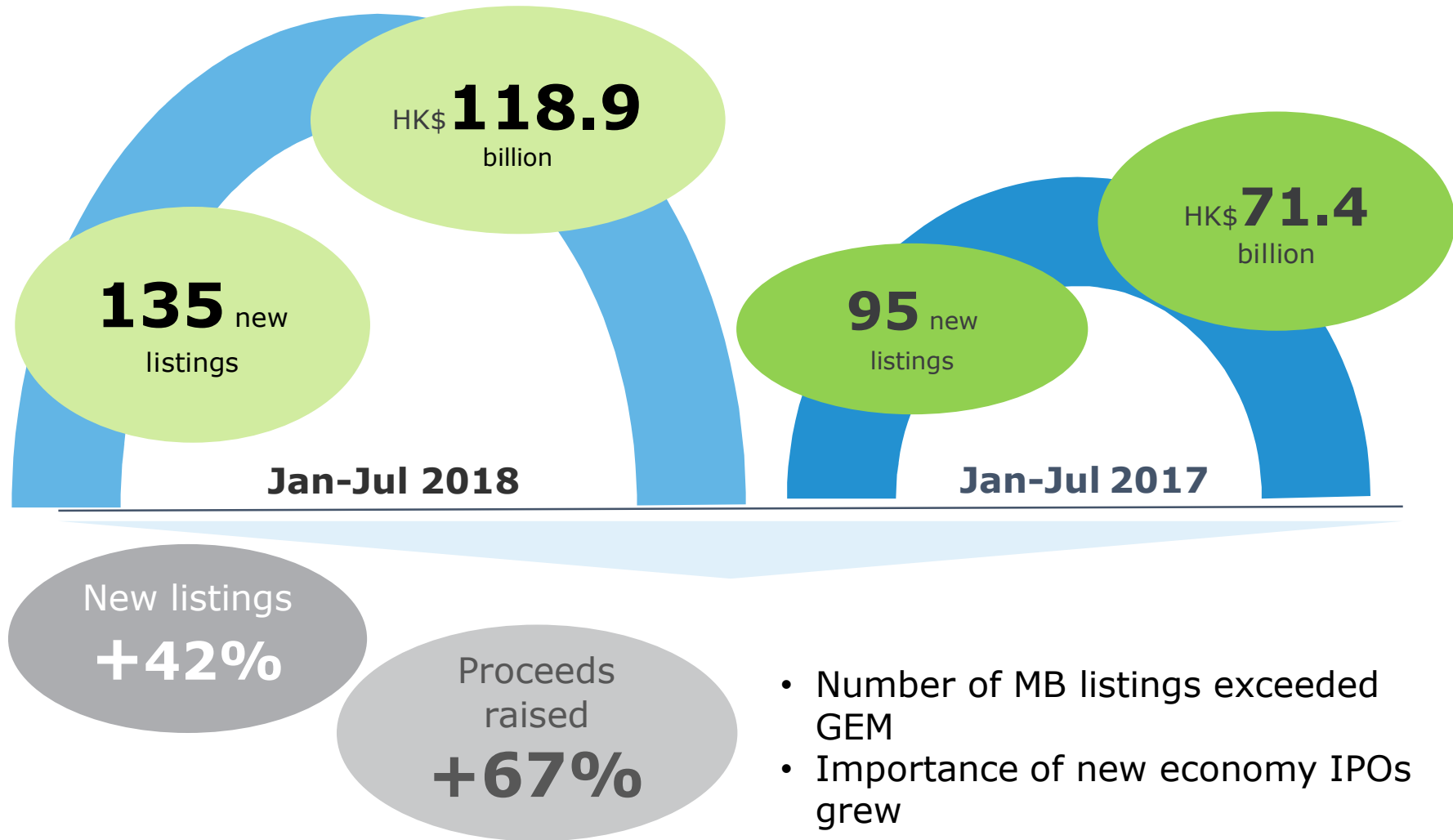
About another 10 U.S. and Chinese biotech companies were at the pipeline.



Source: Hong Kong Stock Exchange (HKEX) and Deloitte's analysis as at 31 July 2018; including those that plan to go public in August 2018.

The Market Perspective

Both the number of new listings and IPO proceeds in the first seven months of 2018 surpassed last year



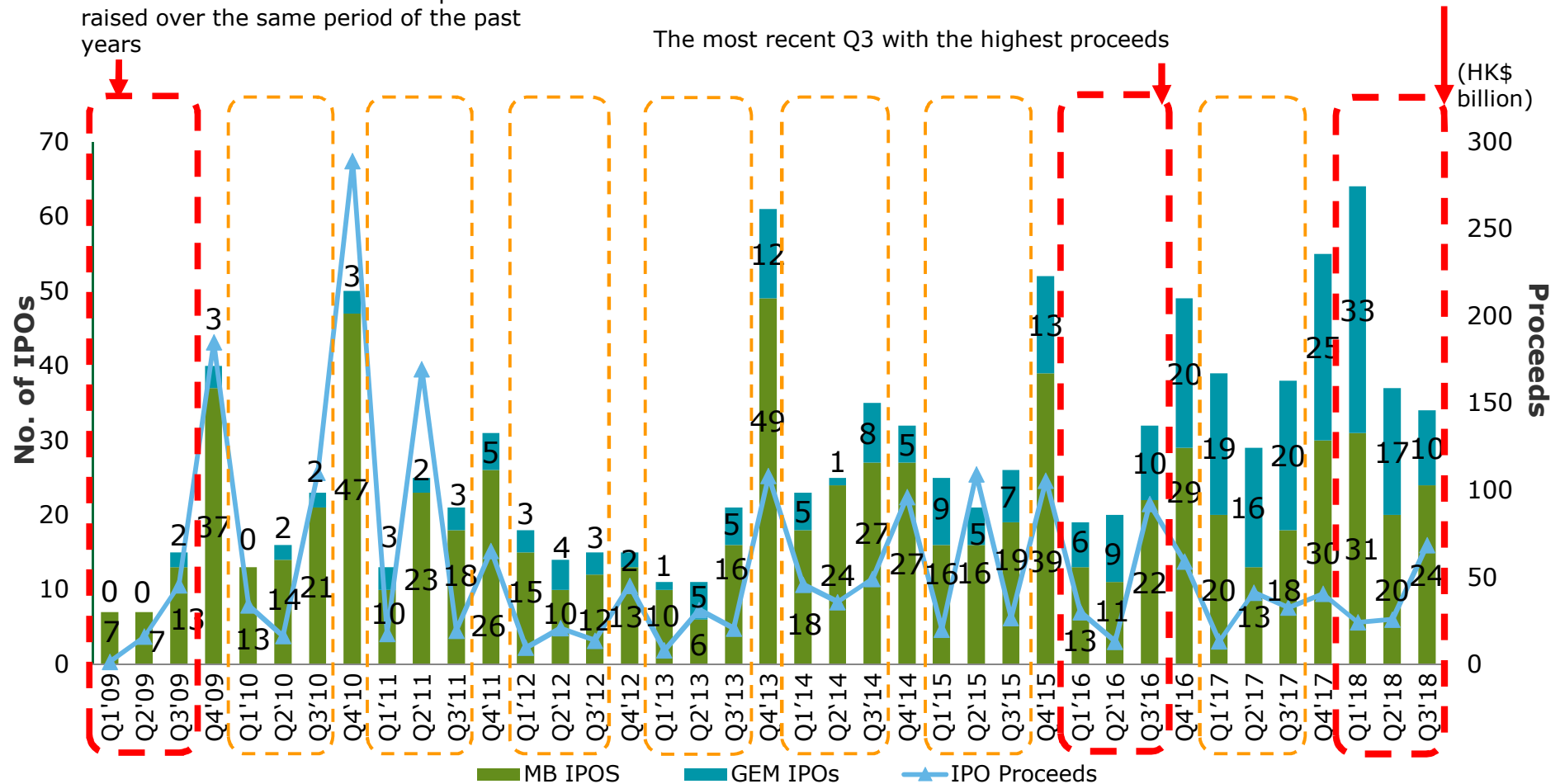
Source: HKEX and Deloitte's analysis as at 31 July 2018; excluding proceeds raised from the exercise of over-allotment options of 16 newly listed companies on MB, which did not announce their price stabilization actions by 31 July 2018.

The number of new listings from Jan-Jul 2018 was significantly stronger than those of first three quarters of the past years. Upon the completion of the China Tower IPO*, proceeds of Q1-Q3 2018 are likely to exceed those of Q1-Q3 2016.

The lowest number of IPOs and proceeds raised over the same period of the past years

A record in number of new listings over all the same period of the past

The most recent Q3 with the highest proceeds



Source: HKEX and Deloitte's analysis as at 31 July 2018; excluding proceeds raised from the exercise of over-allotment options of 16 newly listed companies on MB, which did not announce their price stabilization actions by 31 July 2018.

Total proceeds raised from the top 5 IPOs of Jan-Jul 2018 reached HK\$71.4 billion, 63% up from HK\$43.9 billion of Jan-Jul 2017. Three new economy IPOs are among the top 5 year to-date.

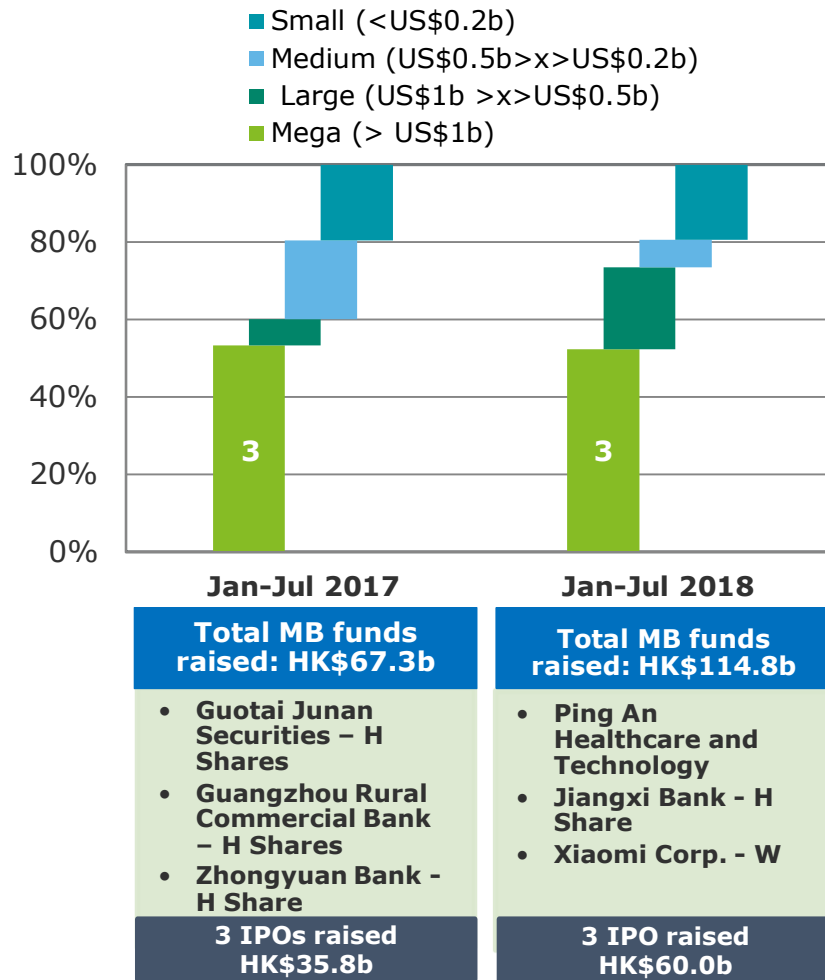


Source: HKEX and Deloitte's analysis as at 31 July 2018; excluding proceeds raised from the exercise of over-allotment options of E-House (China), which did not announce its price stabilization actions by 31 July 2018.

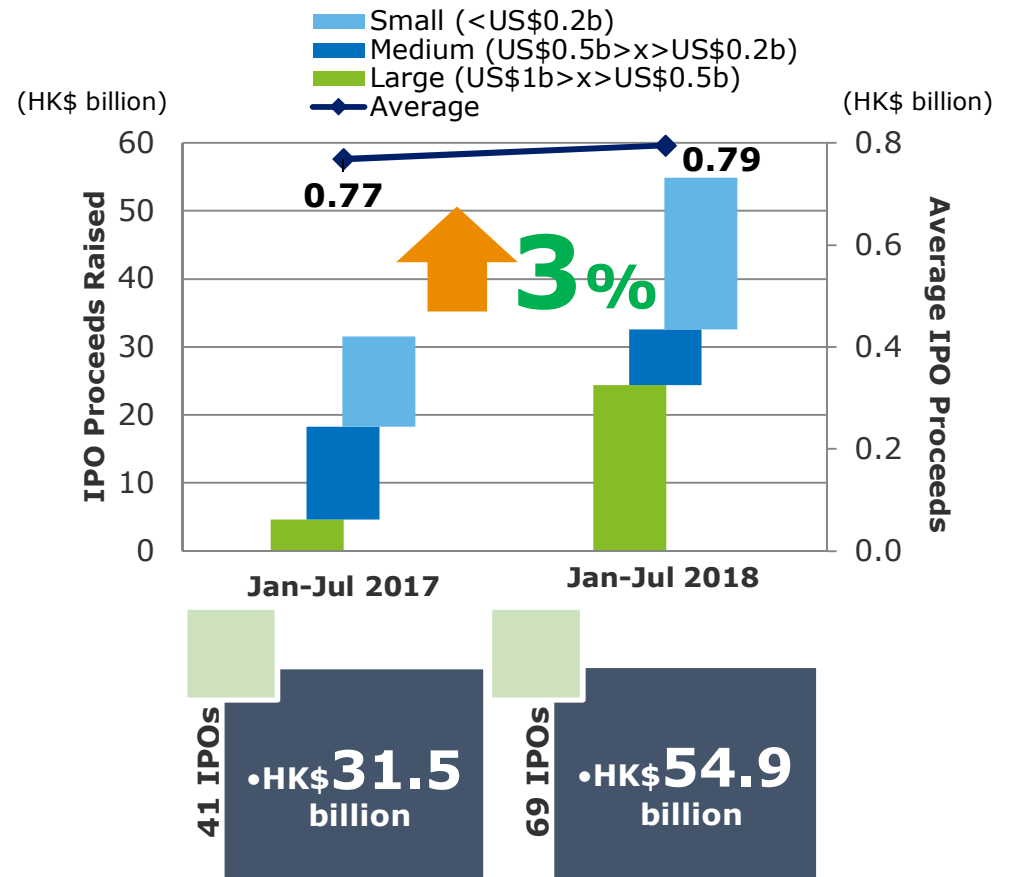
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The ratio of mega IPOs to the total fundraising size of MB this year was similar level as last year. The average deal size for MB's IPOs raised slightly by 3% to HK\$790 million.

Deal Size of HK MB's IPOs



Deal Size of HK MB's IPOs (excluding mega deals that raised at least US\$1b each)



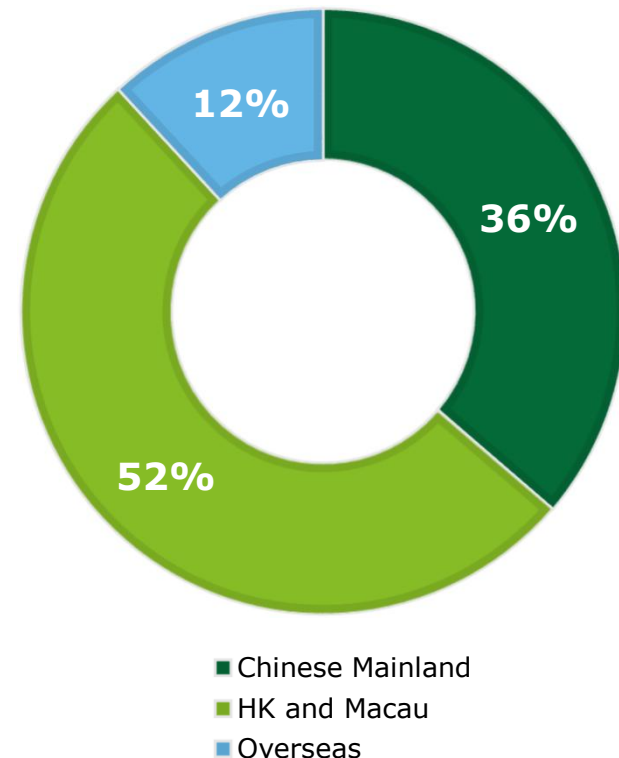
Source: HKEX and Deloitte's analysis as at 31 July 2018; excluding proceeds raised from the exercise of over-allotment options of 16 newly listed companies on MB, which did not announce their price stabilization actions by 31 July 2018.

IPO funds raised by Chinese companies are to get more share following the introduction of the new listing regime and more stringent listing application review cross the border

More than half of IPOs are to be from HK companies, while over 90% of proceeds are to be raised by Mainland businesses

- The number of IPOs from HK and Macau companies is going to fall slightly by two percentage points while the number of IPOs from overseas companies is likely to go down by one percentage point. They are to help increase the share of Mainland IPOs by two percentage points to 36% (49 IPOs).
- IPOs from Mainland companies are going to contribute to over 90% of the total proceeds in HK's IPO market. The amount is likely to be about HK\$108.3 billion, slightly down from 85% of Jan-Jul 2017 (HK\$58.7 billion).
- This year is to see 16 IPOs from overseas companies from Singapore, Canada, Malaysia, Australia and the U.S. raising HK\$2.2 billion. The proceeds are to be down by 162% from HK\$4.3 billion in Jan-Jul 2017.

No. of IPOs by Location of Issuer

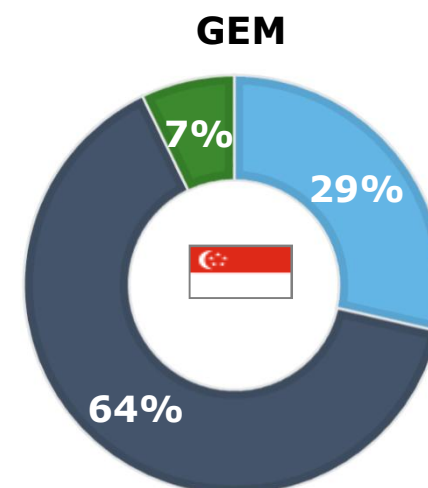
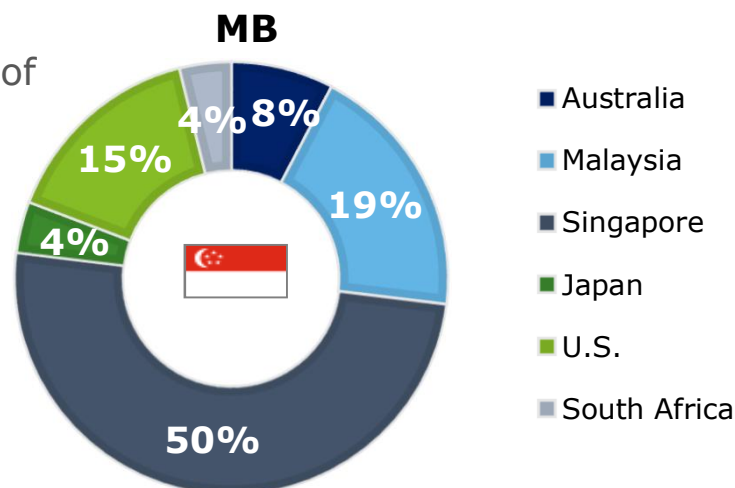


Source: HKEX and Deloitte's analysis as at 31 July 2018; excluding proceeds raised from the exercise of over-allotment options of 16 newly listed companies on MB, which did not announce their price stabilization actions by 31 July 2018.

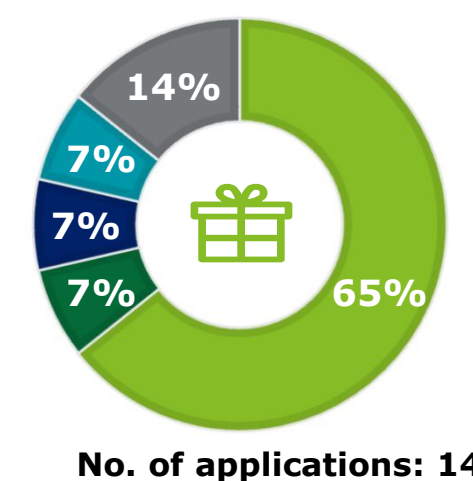
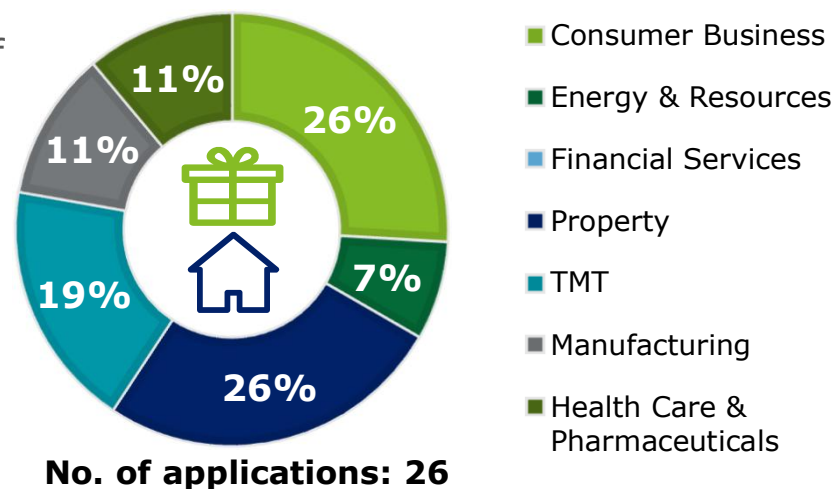
Singapore applicants continued to dominate the listing applications in HK among the overseas companies towards the end of July 2018.

U.S.' LSHC applicants increased due to the new MB listing rules. Consumer business and property prevailed on MB, while GEM was only led by consumer business.

By overseas market of overseas applicants

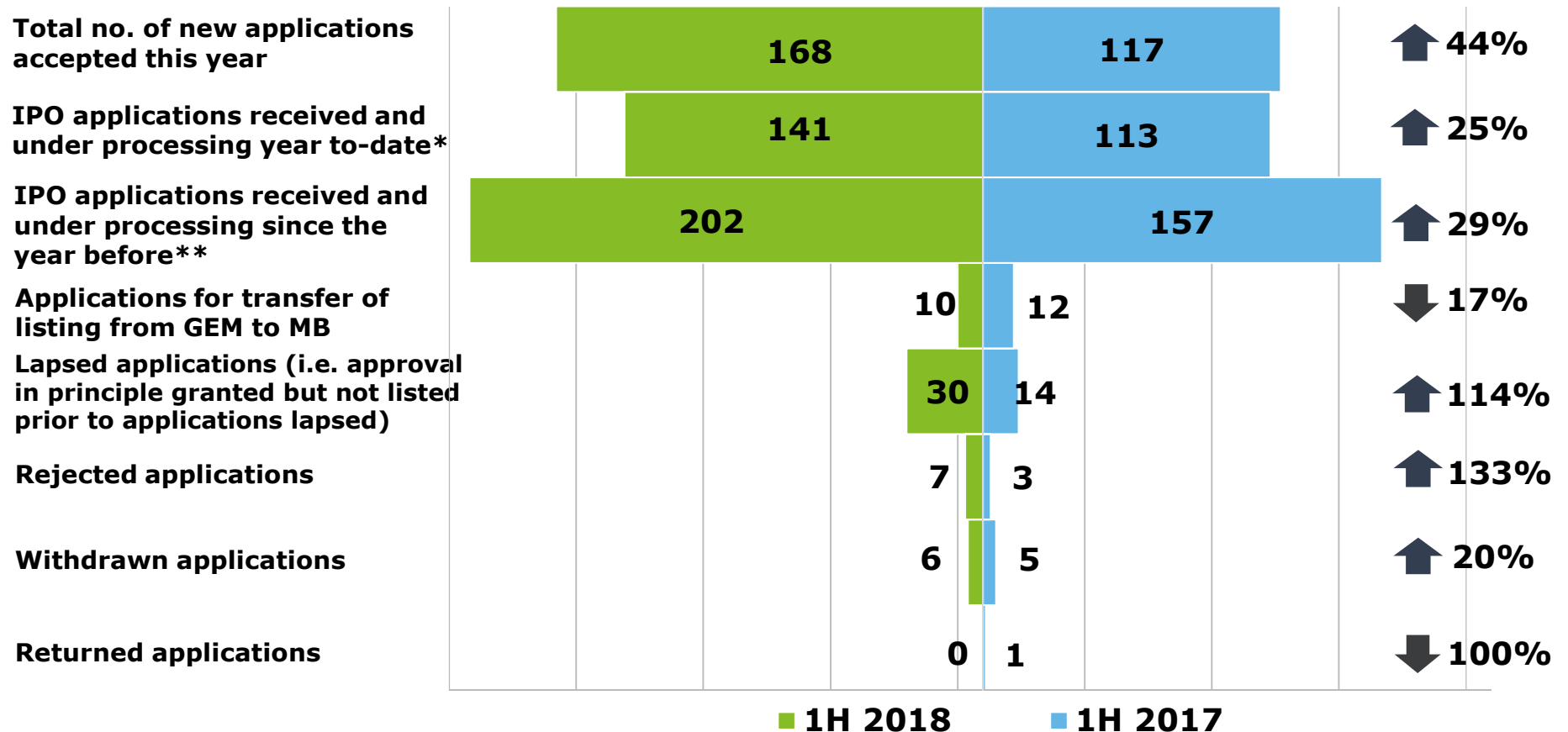


By industry sector of overseas applicants



Source: HKEX and Deloitte's analysis as at 31 July 2018; including those that plan to go public in August 2018.

Newly accepted IPO applications, lapsed applications with approval in principle granted, rejected and withdrawn applications all rose this year.

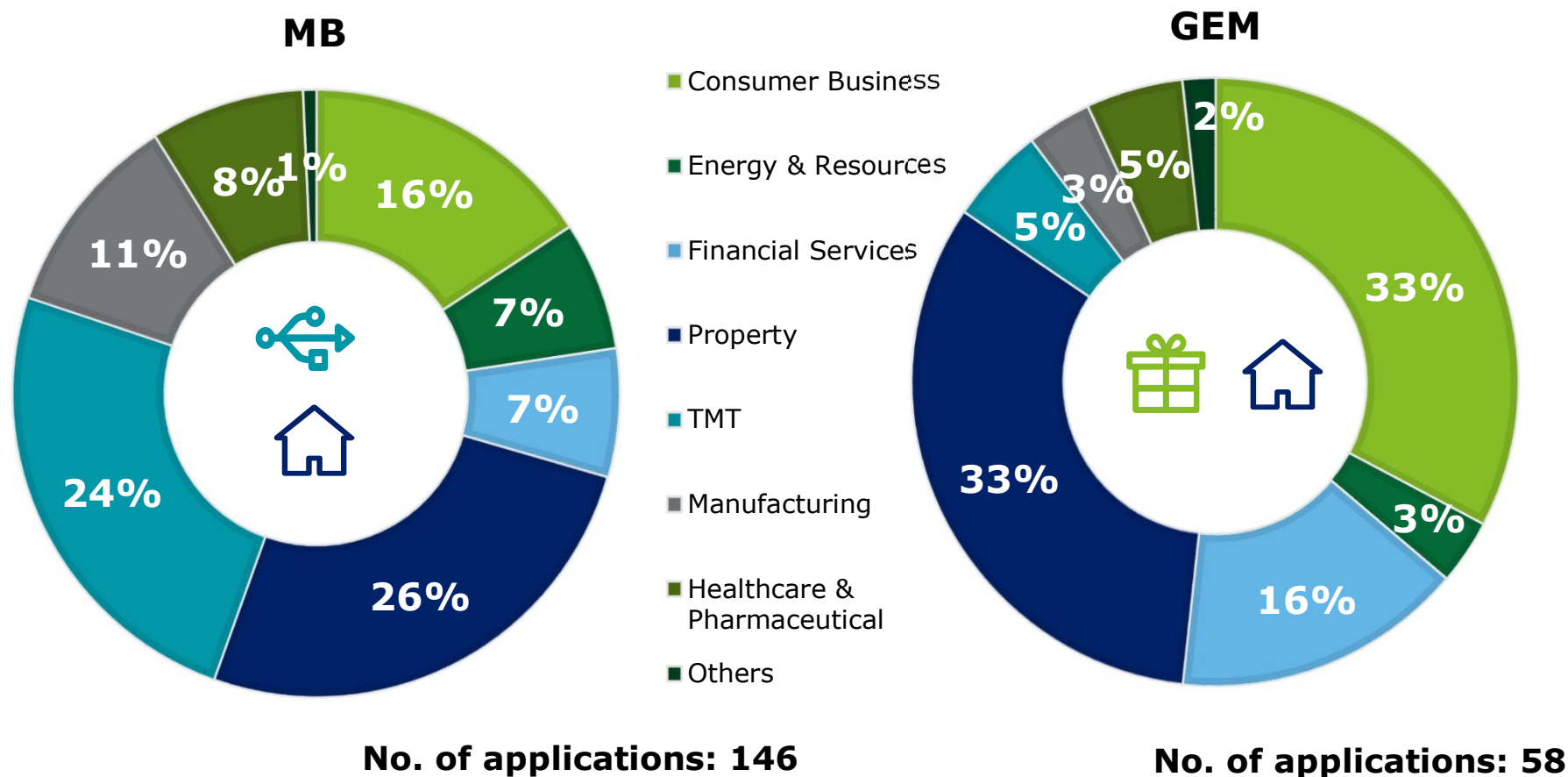


Source: HKEX and Deloitte's analysis as at 30 June 2018.

*Figure of 1H 2018 includes new IPO applications accepted since 1 January 2018 and figure of 1H 2017 includes new IPO applications accepted since 1 January 2017

**Figure of 1H 2018 includes new IPO applications accepted since 1 January 2017 and figure of 1H 2017 includes new IPO applications accepted since 1 January 2016

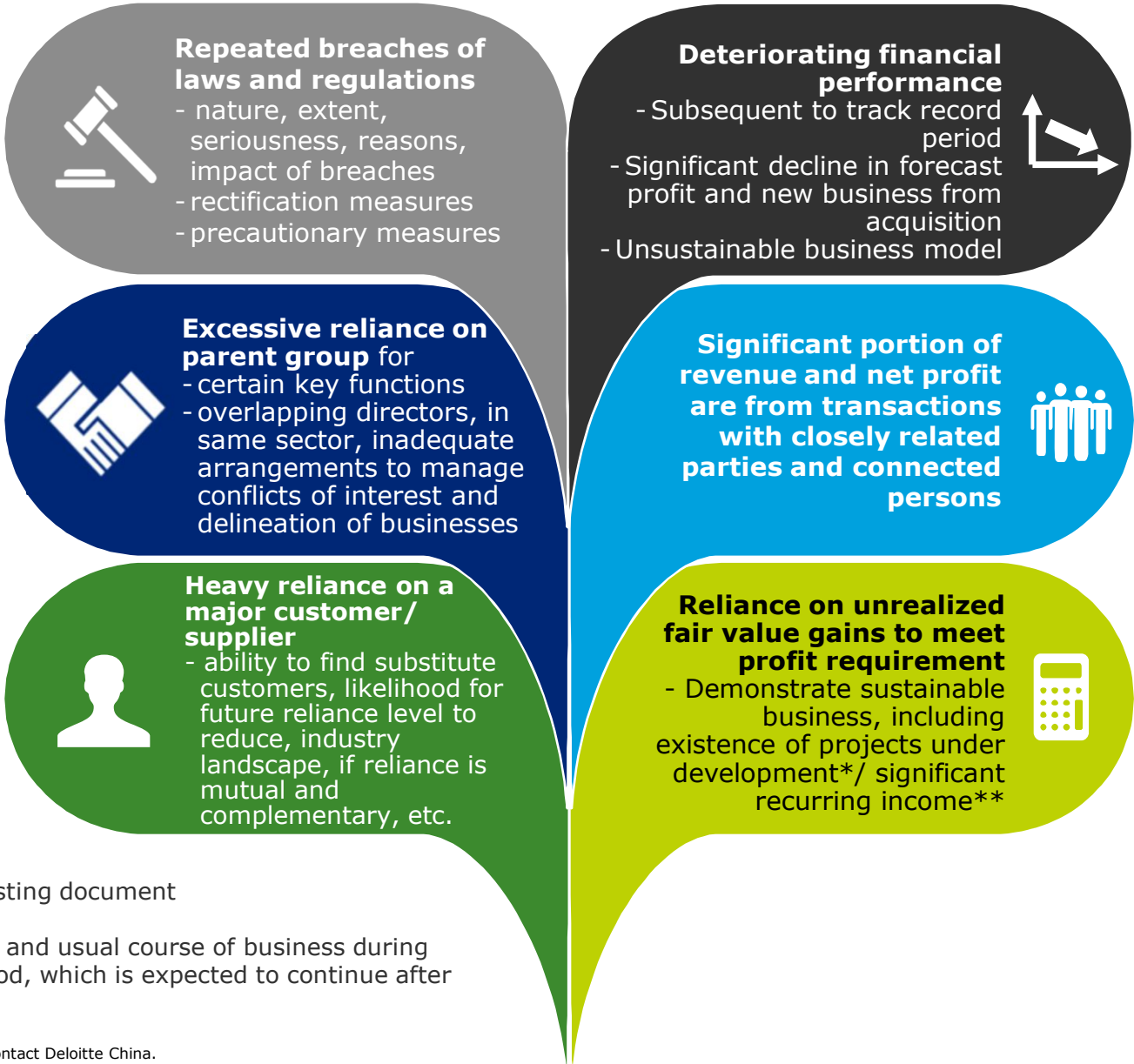
Applications for listing on GEM have reduced while those for MB show a big leap by the end of the first seven months of 2018. TMT and property sectors dominated the IPO applications for MB. But for GEM, the consumer business and real estate industry led.



Source: HKEX and Deloitte's analysis as at 31 July 2018; including those that plan to go public in August 2018.

The Reminders

Areas of concern



* As at date of listing document

** from ordinary and usual course of business during track record period, which is expected to continue after listing

Exceptions that help facilitate listings of companies from emerging and innovative sectors (HKEX-GL97-18)

Address characteristics of Internet-related companies

Major challenge 1.

A high degree of reliance that internet technology companies often have on the internet platforms operated by their parent companies (or other "connected persons") or major suppliers

Major guidance 1.

May be able to list with a high degree of reliance on a parent company/ connected person/ major suppliers/ major customers if it demonstrates that it meets certain conditions

Major guidance 2.

Waivers may be granted on a case by case basis to allow annual caps on continuing connected transactions to be set as a formula instead of a monetary amount

Major challenge 2.

A heightened need of internet technology companies to attract and retain staff through share option schemes

Major guidance 3.

Waivers may be granted to allow (a) a higher percentage cap on outstanding share options to be granted; and (b) a longer than 10 year take-up limit for a share incentive scheme

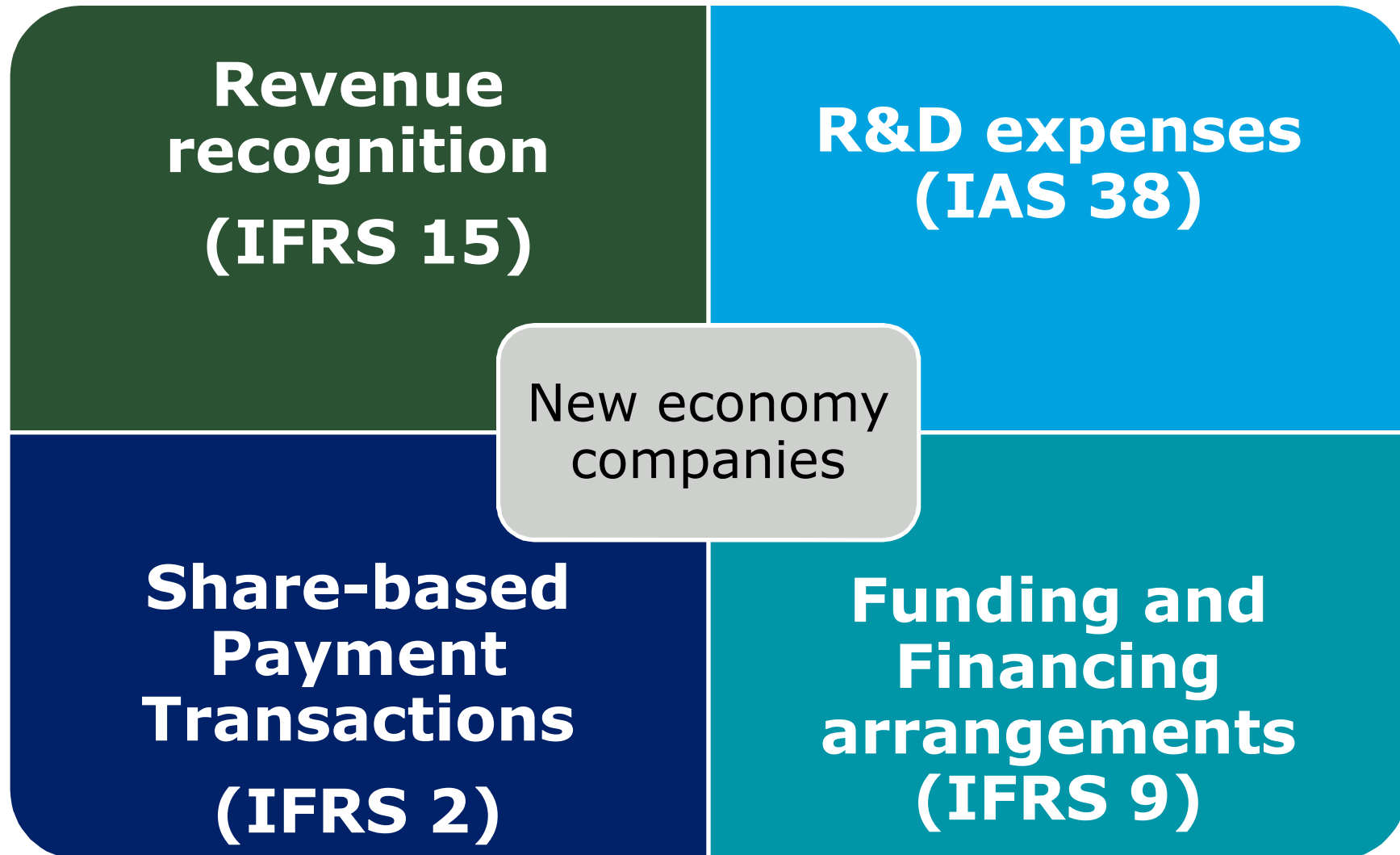
Major challenge 3.

The difficulties internet technology companies have in demonstrating that they are compliant with relevant laws and regulations when they may yet to be fully established in their industry

Major guidance 4.

A legal opinion is not required if the relevant laws and regulations applicable are still developing and are not expected to be promulgated in the near future. Disclosure of the associated risks in the listing document would be sufficient

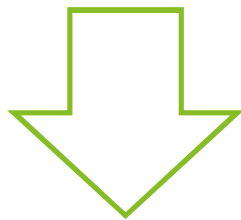
Typical accounting and audit issues



Typical accounting and audit issues

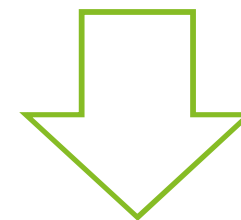
Internal Research and Development costs

Research is defined as original and planned investigation undertaken with the prospect of **gaining new scientific or technical knowledge and understanding**. [IAS 38:8]



EXPENSED AS INCURRED

Development is the **application of research findings** or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use. [IAS 38:8]



EXPENSED vs INTANGIBLE ASSETS

Typical accounting and audit issues

Internal Research and Development costs

Cost incurred during the **development phase** are also **expensed** instead of **capitalized as an intangible asset** unless if, and only if, an entity can demonstrate **all** of the following:

- ü *the technical feasibility of completing the intangible asset so that it will be available for use or sale;*
- ü *its intention to complete the intangible asset and use or sell it;*
- ü *its ability to use or sell the intangible asset;*
- ü *how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;*
- ü *the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and*
- ü *its ability to measure the expenditure attributable to the intangible asset during the development phase.*

Typical accounting and audit issues

Share-based Payment Transactions [IFRS 2]

Transactions in which entity receives goods or services as consideration for:

- Ø **entity's equity instruments (including share options / warrants), or**
- Ø **by incurring liabilities for amounts based on the price of the entity's shares / equity instruments (e.g.: share appreciation rights)**

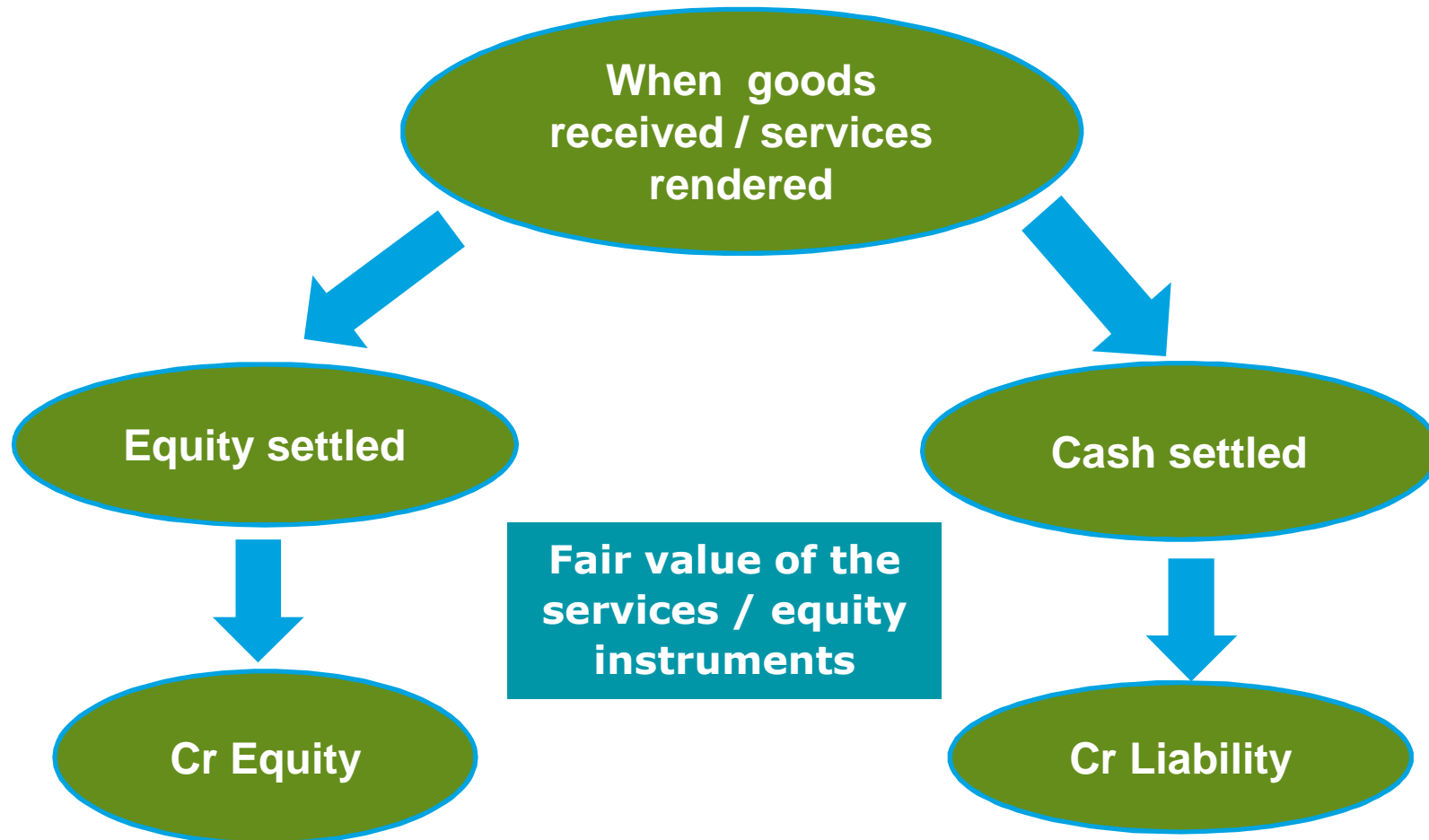
Common cases in new economy companies

- ü *Shares / share options / share warrants issued to directors / employees / consultants / external service providers*
- ü *Share warrants issued to lenders in a loan financing arrangements*

Typical accounting and audit issues

Recognition of Share-based Payment Transactions

The accounting treatment depends on how the transactions are settled:



Typical accounting and audit issues Funding and Financing Arrangements

Common features for new economy companies

Issue of convertible bonds, convertible preferred shares, loans with warrants

- Ø **Host instruments with holder's redemption right will be a financial liability**
- Ø **Conversion feature may constitute a financial liability at FVTPL**
- Ø **Potential significant accounting loss to the issuer because of the high interest costs or/and FV increase of the underlying shares**

Issue of ordinary shares with put options

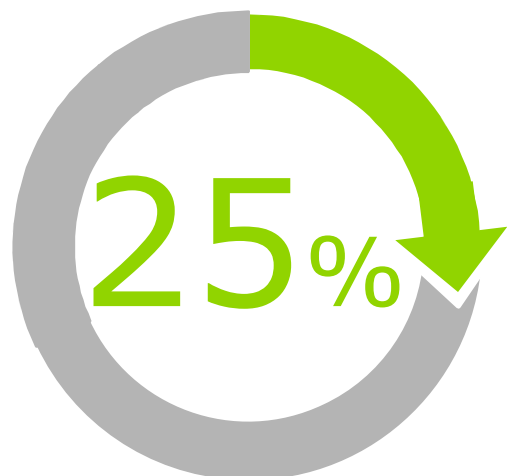
- Ø **Gross settlement by the reporting entity under the put option will result in recognition of a financial liability**

**IFRS 9: Financial liabilities at fair value
through profit & loss**
IFRS 13: Fair value measurement

Deloitte China's IPO Service Credentials

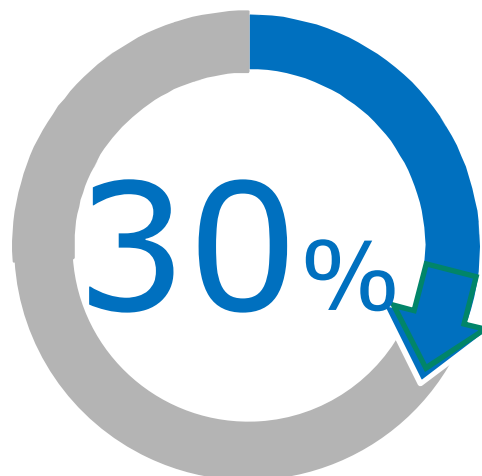
Our strong leadership in IPO services

HK IPO Services (2009-2018)

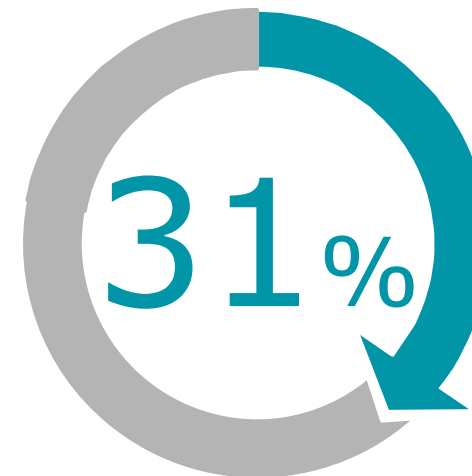


No. of IPOs
Total: 785

U.S. IPO Services for Chinese Firms (2006-2018)



IPO Proceeds
Total: HK\$2.1 trillion

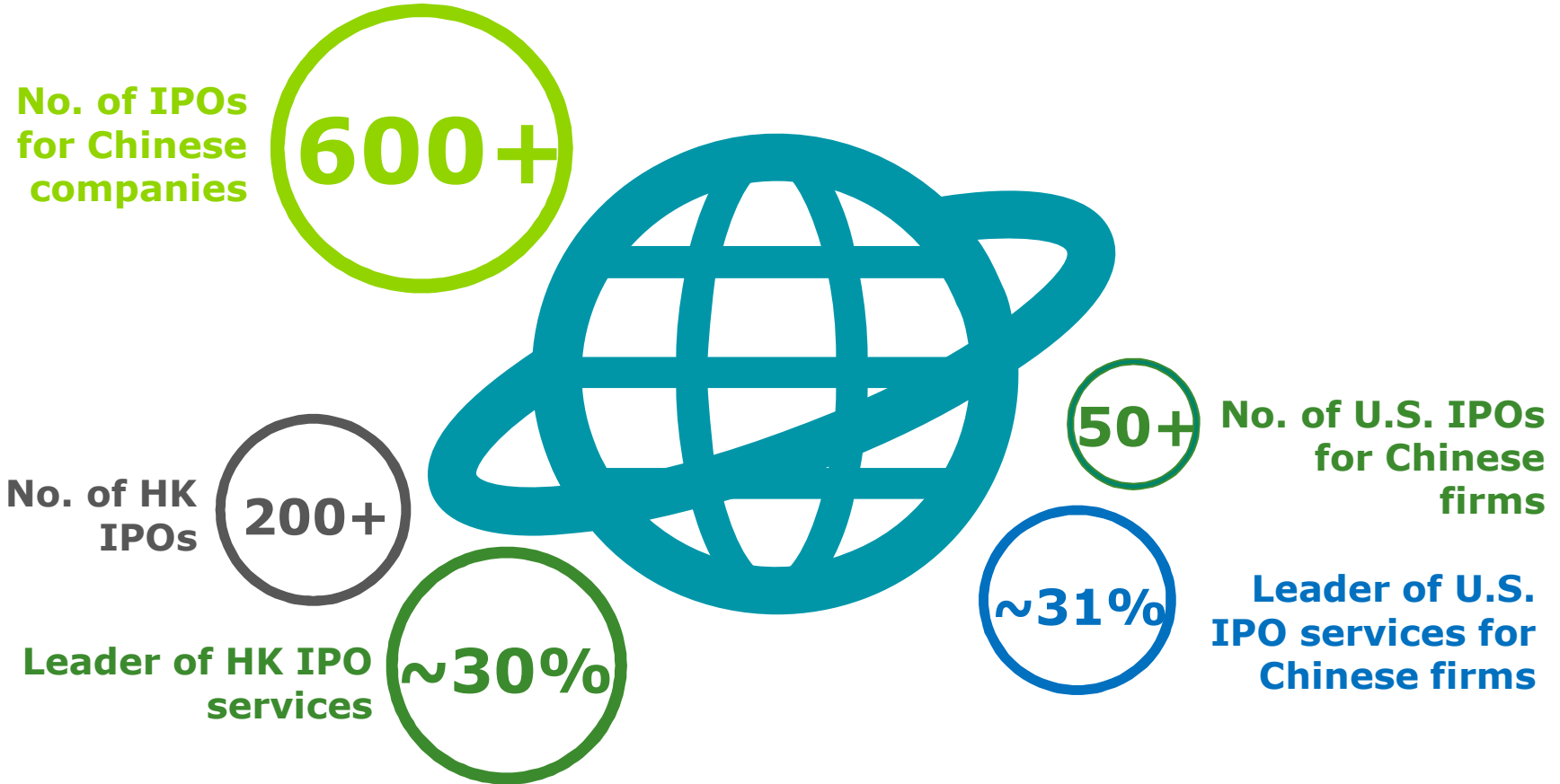


No. of IPOs
Total: 195

Source of HK market statistics: HKEX, Deloitte's analysis as at 31 July 2018, based on the accumulated proceeds and number of IPOs on the MB since 2009; excluding the proceeds raised from the exercise of over-allotment options of 18 newly listed companies on the MB, which are expected not to announce their price stabilization actions from 28-31 July 2018.

Source of U.S. market statistics: NYSE, NASDAQ, Deloitte's analysis as at 31 July 2018; based on the accumulated number of U.S. IPOs by Chinese companies since 2006.

Leader of IPO services for Chinese companies



Source of market statistics: HKEX, NYSE, NASDAQ, Deloitte’s analysis as at 31 July 2018; excluding proceeds raised from the exercise of over-allotment options of 18 newly listed companies on the MB, which are expected not to announce their price stabilization actions from 28-31 July 2018.

§ No. of IPOs for Chinese companies: accumulated since 1980

§ No. of HK IPOs: accumulated since 2006

§ Leader of HK IPO services: accumulated IPO proceeds raised from the MB since 2009

§ No. of U.S. IPOs and leadership in U.S. IPO services for Chinese firms: accumulated number of U.S. IPOs by Chinese companies since 2006

Where we were in 2017



Leader of **HK IPO Services**

No. of IPOs (MB + GEM)



Leader of **U.S. IPO Services for Chinese Firms**

No. of IPOs (NYSE + NASDAQ)



Leader of **PRC IPO Services** among Big 4 Firms

No. of IPOs (Main Board + SME Board + ChiNext)

IPO Proceeds (Main Board + SME Board + ChiNext)

Source of HK market statistics: HKEX, Deloitte's analysis as at 31 December 2017; excluding the proceeds raised from the exercise of over-allotment options of 11 newly listed companies on the MB, which did not announce their price stabilization actions by 31 December 2017.

Source of U.S. market statistics: NYSE, NASDAQ and Deloitte's analysis as at 31 December 2017.

Source of PRC market statistics: China Securities Regulatory Commission (CSRC), Deloitte's analysis as at 31 December 2017

*Excluding market share of other local firms.

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