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Initial Public Offerings 2025

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Introduction

In 2025, the Hong Kong initial public offering ("**IPO**") market is expected to be robust, with a surge in the number of listing applications and fundraising size. In May 2025, Chinese electric vehicle battery giant Contemporary Amperex Technology Limited ("**CATL**") made its US$4.6 billion IPO debut on The Stock Exchange of Hong Kong Limited ("**SEHK**") as the world's largest IPO of the year, infusing a strong boost to the Hong Kong capital market. Apart from strong investor demand and confidence, Hong Kong's IPO market is driven by several factors, including the following.

Multiple listing regimes tailored to accommodate a diverse range of companies, in particular the tech and life sciences sectors

Hong Kong has two venues for listing: the Main Board of SEHK; and GEM of SEHK. There are multiple listing regimes targeting a diverse range of companies, including the following.

The Main Board generally targets established companies with a proven track record. It requires a trading period of not less than three financial years under substantially the same management, subject to waiver for companies with larger market capitalisation, mineral companies and newly formed project companies. Main Board applicants need to meet one of the three financial tests: the profits test; the market capitalisation/revenue test; and the market capitalisation/revenue/cashflow test, pursuant to Chapter 8 of the Rules Governing the Listing of Securities on SEHK (the "**Listing Rules**"):

- *Profits test*: market capitalisation at the time of listing ≥ HK$500 million, profit attributable to shareholders of the most recent year ≥ HK$35 million, and profit attributable to shareholders of the two preceding years ≥ HK$45 million.
- *Market capitalisation/revenue test*: market capitalisation at the time of listing ≥ HK$4 billion, and revenue of the most recent audited year ≥ HK$500 million.
- *Market capitalisation/revenue/cashflow test*: market capitalisation at the time of listing ≥ HK$2 billion, revenue of the most recent audited year ≥ HK$500 million, and aggregate positive cashflow from operating activities for three preceding financial years ≥ HK$100 million.

Biotech companies, i.e. companies engaging in the research and development ("**R&D**"), application and commercialisation of biotech products, such as pharmaceutical (small molecule drugs), biologics or medical devices, may list pursuant to Chapter 18A of the Listing Rules. A Chapter 18A applicant must be in operation in its current line of business for at least two financial years prior to listing under substantially the same management. There is no requirement to demonstrate profitability or revenue for listing. Instead, the core products must have reached a certain stage of clinical trial and the market capitalisation at the time of listing should meet HK$1.5 billion. An applicant must have received third-party investment from at least one sophisticated investor at least six months before the listing.

Special purpose acquisition companies ("**SPACs**") are permitted under Chapter 18B of the Listing Rules to be listed for the purpose of acquisition of business using the IPO proceeds. SPAC promoters are designated to manage the SPAC and to identify suitable de-SPAC targets. The gross funds raised by a SPAC from the IPO must be at least HK$1 billion and the minimum subscription amount per investor must be HK$1 million. There should be at least 75 professional investors, of whom at least 20 must be institutional professional investors holding at least 75% of the securities to be listed.

Chapter 18C of the Listing Rules allows the listing of specialist technology companies, i.e. companies that are primarily engaged in the R&D and commercialisation of products or services within one of the specialist industries specified by Hong Kong Exchanges and Clearing Limited ("**HKEx**"), including next-generation information technology, advanced hardware and software, advanced materials, new energy and environmental protection and new food and agriculture technologies. Listing qualifications differ for a "Commercial Company" and a "Pre-Commercial Company":

	Commercial Company	**Pre-Commercial Company**
Revenue	HK$250 million revenue arising from specialist technology business for the most recent audited financial year Year-on-year revenue growth throughout the track record period	N/A
Market capitalisation at the time of listing	HK$4 billion	HK$8 billion
R&D expenditure: (i) on a yearly basis for at least two out of the three financial years prior to listing; and (ii) on an aggregate basis over all three financial years prior to listing	15% of total operating expenditure	30% of total operating expenditure where revenue for the most recent fiscal year is HK$150–250 million 50% of total operating expenditure where revenue for the most recent fiscal year is less than HK$150 million

GEM targets smaller, high-growth companies and startups. It requires a trading period of not less than two financial years. GEM applicants need to meet one of the two tests under Chapter 11 of the Rules Governing the Listing on GEM of SEHK (the "**GEM Listing Rules**"):

- *Cashflow test*: market capitalisation at the time of listing ≥ HK$150 million, and positive two-year aggregate operating cashflow ≥ HK$30 million.
- *Market capitalisation/revenue/R&D test*: market capitalisation at the time of listing ≥ HK$250 million, two-year aggregate revenue of ≥ HK$100 million, with year-on-year revenue growth over the two financial years, two-year aggregate R&D expenditure of ≥ HK$30 million, and R&D expenditure incurred for each financial year must be ≥ 15% of its total operating expenditure for the same period.

- *Mineral companies*: an applicant whose major activity (one representing 25% or more of the total assets, gross revenue or operating expenses) is the exploration for and/or extraction of natural resources (which include minerals or petroleum) is subject to additional listing requirements under Chapter 18 of the Listing Rules. A technical report prepared by a qualified competent person must be provided, detailing the company's mineral resources and reserves. The applicant may obtain a waiver from the financial tests under Chapter 8 of the Listing Rules or Chapter 11 of the GEM Listing Rules, but it should demonstrate a minimum of five years' experience relevant to the exploration and/or extraction activity of its directors and senior management, and a viable business model, with evidence of revenue generation and a pathway to commercial production.

Regulatory policy shifts in Mainland China and Hong Kong

As the China Securities Regulatory Commission implemented stricter controls on domestic fundraising, Chinese regulatory authorities notably decreased the number of IPO approvals. This created a bottleneck for domestic listings, prompting many high-quality Chinese companies to consider Hong Kong as an alternative listing venue.

On the other hand, the Hong Kong regulators have announced a more streamlined vetting approach for IPOs. In October 2024, SEHK and the Securities and Futures Commission (the "**SFC**") issued a Joint Statement in relation to an enhanced timeframe for the new listing application process. The review period for major issues will be streamlined to 40 business days for straightforward cases, and 30 business days for eligible A-share listed applicants with a market capitalisation of HK$10 billion or above. Such a streamlined vetting process is appealing to listing applicants, as it improves efficiency, clarity, and certainty of the listing process.

Regulatory encouragement and support for A+H dual listings

In the past, A-share listed issuers may have hesitated in seeking A+H dual listings because of the concern that the Hong Kong listing might likely adversely affect Mainland share prices due to valuation disparities. Midea Group's successful offering in Hong Kong has established a new model for dual listings, showing that H-shares can thrive without negatively impacting A-share valuations. CATL's even stronger performance – trading at a premium to its Shenzhen-listed shares – further reinforces this emerging trend. It is expected that more and more Mainland-listed companies will pursue Hong Kong listings to tap international investors for funds.

In December 2024, HKEx consulted the public as it proposes to reduce the minimum threshold of the amount of H-shares that A+H issuers must list in Hong Kong to either represent at least 10% of the total number of issued shares in the same class (as compared to the current requirement of 15%) or have an expected market value of at least HK$3 billion at listing, which must also be held by the public. If such proposal is adopted, it will further alleviate concerns about the impact of H-share listings on A-share stock prices and attract more A-share issuers to list in Hong Kong.

The IPO process: Steps, timing and parties and market practice

The IPO process in Hong Kong involves several key steps, participants, and market practices. Please see an overview below.

Preparation stage

Engagement of professional parties

A listing applicant needs to engage a sponsor, other advisors and professional parties such as legal counsels, reporting accountants and financial advisors to guide them through the IPO process.

Due diligence

Sponsors and advisors conduct thorough due diligence to ensure compliance with regulatory requirements and assess the applicant's financial health and suitability for listing. Typical due diligence entails conducting background searches against the applicant and its shareholders and management, independent interviews with the major customers and suppliers of the applicant and reviewing documents obtained from the applicant and public sources.

Reorganisation

The listing group may require restructuring and reorganisation before the listing. It is common to adopt a company incorporated in one of the recognised jurisdictions, namely Hong Kong, the People's Republic of China, the Cayman Islands and Bermuda, as the listing vehicle. If the applicant wishes to use a company incorporated in another jurisdiction as the listing vehicle, it will need to be qualified as an acceptable jurisdiction by demonstrating that their domestic laws, rules and regulations, their constitutional documents and potential arrangements that can be adopted, as a whole, meet the key shareholder protection standards at least equivalent to those provided in Hong Kong.

Pre-IPO investors

The listing applicant may introduce pre-IPO investors before the listing, to fund the IPO or to support its business development. Pre-IPO investment helps bolster the market capitalisation of the applicant by demonstrating investor interest and confidence. SEHK requires that all pre-IPO investments must be completed at least 28 days before the submission of the listing application or 120 days before the actual listing date.

Drafting the prospectus

Prospectus preparation

The listing applicant, with its advisors, prepares a prospectus, detailing financial statements, business operations, industry reports, risk factors, and future plans. One of the distinctive features of Hong Kong listings is the requirement for a bilingual prospectus (in both English and Chinese). Market participants in Hong Kong are used to preparing dual-language documentation and engaging in bilingual communication with regulatory authorities.

Regulatory review

The prospectus is submitted to SEHK for review and vetting. Upon submission of the listing application, an application proof of the prospectus is uploaded to the website of HKEx for public review.

Marketing the IPO

Roadshows

The listing applicant conducts roadshows to present its business to potential investors and gauge interest.

Book-building

During this phase, underwriters collect indications of interest from institutional investors to determine the offer price.

Pricing and allocation

Final pricing

Based on demand and market conditions, the final offer price is set.

Allocation of shares

Shares are allocated to institutional and retail investors, with careful consideration to ensure a balanced distribution.

Listing

Trading commences

Once approved, the company's shares are listed, and trading commences on SEHK.

Timing

Overall timeline

The entire IPO process typically takes about six to nine months, depending on the complexity of the company and market conditions. In 2024, ONC Lawyers acted as the legal advisors to the sponsor and underwriters of Wing Lee Development Construction Holdings Limited (Stock Code: 9639) in its IPO, and achieved a record of listing in 100 days from the submission of the listing application to successful listing.

Key milestones

Preparation, due diligence, and prospectus drafting can take several months, while the marketing phase usually lasts two to four weeks.

Key parties involved

The key parties involved are the following:

- *Issuer*: the listing applicant going public.
- *Sponsor(s)*: corporation(s) licensed to carry out Type 6 (advising on corporate finance) regulated activity, to conduct due diligence on the applicant, its business and shareholders and to submit the listing application on its behalf.
- *Legal advisors*: provide legal guidance throughout the process, rendering legal opinions on group companies, draft the prospectus and relevant documentation and assist the sponsor in conducting due diligence on the applicant.
- *Reporting accountants*: prepare financial statements to be disclosed in the prospectus.
- *Financial printer*: typeset and translate the prospectus.
- *Underwriters*: investment banks that facilitate the IPO, help with pricing, and manage the book-building process.

Regulatory architecture: Overview of the regulators and key regulations

Key regulators

The responsibility of overseeing the regulatory regime of the Hong Kong IPO market primarily rests with SEHK and the SFC.

SEHK assumes the role of regulating market operation and enforcement of the Listing Rules. In particular, it is the duty of SEHK to ensure that the Hong Kong listing market operates in a fair, orderly and informed manner.

The SFC, being an independent statutory body, is entrusted with the responsibility of maintaining and promoting fairness and transparency of the securities and futures industry, protecting public investors and reducing systemic risks in the securities and futures industry. The SFC carries out its functions through the exercise of its statutory powers of investigation and enforcement. Since 2017, the SFC has adopted a front-loaded approach, and early-stage intervention becomes common when the SFC suspects serious cases of corporate misconduct.

Key regulations

The major laws and regulations governing the listing process in Hong Kong include the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32), the Securities and Futures Ordinance (Cap. 571) (the "**SFO**"), and the Listing Rules.

Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)

A prospectus complying with certain content requirements is required for the offer of shares in a company to the public. The prospectus must also be registered with the Registrar of Companies before publication.

The Ordinance imposes civil and criminal liabilities on persons who have authorised the issue of a prospectus (e.g. directors) for any untrue statement or material omission in the prospectus.

The SFO

The SFO provides the legal framework for the regulation of securities and futures markets. It imposes civil and criminal liabilities for misstatements that induce investment. It also regulates other market misconduct such as insider trading and market manipulation.

Listing Rules

The Listing Rules set out conditions that the listing applicants are expected to meet before securities may be listed in Hong Kong. In addition, SEHK also publishes guidance letters and listing decisions (most of them are now being consolidated into "A Guide for New Listing Applicants" published by SEHK) to provide additional guidance on application of the Listing Rules. The Corporate Governance Code in the Listing Rules sets standards for corporate governance practices for listed companies.

Public company responsibilities

Once a company is listed on SEHK, it must adhere to several ongoing obligations to ensure transparency, accountability, and investor protection. Below are the key continuing obligations:

1. Continuous disclosure:
   - *Inside information*: issuers must promptly disclose any inside information that could affect their stock price, ensuring that all investors have equal access to important information.
   - *Mandatory disclosure*: the Listing Rules set out some mandatory disclosure requirements, pursuant to which issuers need to publish an announcement upon occurrence of certain matters or changes, e.g. change of principal place of business, change in share capital, advance to an entity exceeding 8% of the total assets of the issuer, etc.
2. Regular financial reporting:
   - *Annual reports*: issuers must publish audited annual results within three months of the financial year end. Annual reports should be published not less than 21 days before the date of their annual general meetings ("**AGMs**") and in any event not more than four months before the financial year end.
   - *Interim reports*: semi-annual unaudited financial results should be released within two months of the end of the first half of the financial year. Half-year reports should be published not later than three months after the end of the six-month period.
   - *Quarterly reports*: quarterly reporting is optional.

3. Corporate governance:
    - *Compliance with the Corporate Governance Code*: issuers must disclose their governance practices and any deviations from the code.
    - *Board composition*: details regarding the board of directors, including independent directors and committee structures, must be maintained.
4. Shareholder communication:
    - *AGMs*: issuers are required to hold AGMs and provide shareholders with information on the company's performance and future plans.
    - *Extraordinary general meetings ("**EGMs**")*: issuers may convene EGMs to approve corporate transactions and changes in share capital.
    - *Circulars*: for significant transactions (e.g. connected transactions, mergers, acquisitions reaching certain scale), issuers must issue circulars to shareholders outlining the details and implications of the transactions to be voted on.
5. Connected transactions:
    - Save for certain categories of exempted transactions, any transactions with connected persons must be disclosed, including the terms and potential impact on the company.
6. Compliance with Listing Rules:
    - Issuers must comply with all relevant listing rules, including those related to disclosures, corporate actions, and shareholder rights.

Potential risks, liabilities and pitfalls

Hong Kong listings provide a dynamic platform for companies seeking to access capital from a diverse investor base. The city is known for its robust regulatory framework and international financial reputation, making it an attractive destination for both local and foreign firms. However, companies must navigate a complex regulatory environment and ensure compliance with stringent disclosure requirements. Despite the market's inherent volatility influenced by regional and global economic factors, a successful listing in Hong Kong can enhance a company's visibility and credibility, facilitating growth and expansion in Asia and beyond. Overall, while the potential benefits are significant, thorough preparation and risk management are essential for a successful IPO journey.

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Angel is one of the members who built up the firm's corporate finance practice. She specialises in IPOs and she has advised many listing applicants and sponsors in listings on the Main Board and GEM of the Hong Kong Stock Exchange. Angel has successfully completed more than 35 IPO projects, including the listings of H-share enterprises, red-chip companies, local Hong Kong companies and overseas enterprises, etc.

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Paul is an experienced qualified accountant. He worked in one of the "Big 4" international accounting firms for over seven years, providing audit and assurance services to financial institutions. Paul specialises in IPOs and has participated in a number of IPO projects on the Main Board and GEM of the Hong Kong Stock Exchange, advising listing applicants and sponsors. Paul's expertise and experience in accounting and finance provide him with better insights and competitive edge in understanding businesses, drafting prospectuses, handling queries from regulators and providing well-rounded solutions to clients.

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Global Legal Insights – Initial Public Offerings provides analysis, insight and intelligence across 18 jurisdictions, covering:

- The IPO process: Steps, timing and parties and market practice
- Regulatory architecture: Overview of the regulators and key regulations
- Public company responsibilities
- Potential risks, liabilities and pitfalls