

OPPORTUNITIES FOR CANADIAN BIOTECH COMPANIES ON THE HONG KONG STOCK EXCHANGE

Posted on May 18, 2021

Categories: [Insights](#), [Publications](#)

The healthcare industry is at the forefront of the fight against the COVID-19 pandemic, driving development of diagnostic testing, vaccines and treatment drugs by drawing on innovation and data. With such vital role in improving human health and combating public health crisis, the global healthcare sector has continued to see significant investment.

The Hong Kong Stock Exchange (“**HKEx**”) is one of the most active markets providing global investors with liquidity and access to biotech companies. Since the introduction of **Chapter 18A** in 2018, which allows listing for pre-revenue biotech companies, the HKEx has cultivated the development of a viable eco system for fundraising of healthcare and life sciences companies, which has generated a steady flow of listings of biotech companies. HKEx is also committed to aligning with global best practices around Environmental, Social and Governance (“ESG”) principles. In April 2021, HKEx published a consultation paper^[1] with enhanced measures on corporate governance standards among listed issuers, specifically in the areas of corporate culture, director independence, diversity, and in ESG disclosures and standards.

In less than three years, Hong Kong has now become the world’s second-largest funding hub for biotech after NASDAQ, (and the largest in Asia) with the ambition of becoming the world’s largest in the next five to ten years. During 2020, 23 healthcare/life sciences companies were listed, raising a total of HKD 98.8 billion, or CAD\$15.6 billion. Out of these companies, 14 pre-revenue biotech companies were listed under Chapter 18A, raising an aggregate of HKD 40 billion, or CAD\$6.3 billion. Hang Seng Hong Kong-Listed Biotech Index was up 49.5% in 2020, notably outperforming the Hang Seng Index. The healthcare companies listed on the HKEx since the introduction of Chapter 18A have seen, on average, a 63% gain in their stock prices since their respective IPOs^[2].

No. of healthcare companies listed in 2020 by size of IPO fund raise (HK\$)



Source: HKEX Market data

Underpinning the ambition is the rising middle-class in Asia seeking access to better healthcare solutions, Hong Kong's long exposure to international business practices and its unfettered access to abundant resources for research, testing and manufacturing services in China and its ease of access to the wider Asian market. Hong Kong is also a unique destination for the biotech industry with its world-class infrastructure and a high density of globally renowned universities and research and development platforms such as Hong Kong Science Park, CyberPort amongst others.

As of April 30, 2021, over 30 biotech companies are listed on the HKEx by way of Chapter 18A. The biotech IPO pipeline in Hong Kong remains robust. Below is a list of select Biotech companies^[3] (listing through Chapter 18A) on the HKEx:

Company Name	Ticker	Market Capitalization (USD mm)*	Business	Remarks
BeiGene	6160.HK BGNE.Nasdaq	\$28,042	Developer of molecularly targeted and immuno-oncology cancer drugs.	First Nasdaq-listed pharma company obtaining a secondary listing on the HKEx.
CanSino Biologics	6185.HK	\$11,923	Vaccine developer.	Currently developing a single-dose COVID vaccine; CanSino's TB vaccine is undergoing clinical trials in Canada.
Zai Lab	9688.HK ZLAB.Nasdaq	\$13,461	Biopharmaceutical company focusing on developing drugs for oncology, autoimmune and infectious diseases.	Dual-listed on Nasdaq and HKEx.
Akeso	9926.HK	\$5,405	Developer of new innovative antibody drugs.	
New Horizon Health	6606.HK	\$3,604	Colon cancer screening product developer and manufacturer.	
Peijia Medical	9996.HK	\$2,394	Developer of medical devices for structural heart and cerebrovascular disease intervention.	

*As of May 6, 2021

Basic listing requirements for biotech companies^{[4],[5]}:

A biotech company^[6] at the pre-revenue stage but are not yet able to comply with the traditional profitability track record can list under Chapter 18A if it can demonstrate the following features:

Categories	Requirements
Expected market capitalization	Minimum expected market capitalization of HK\$1.5 billion (C\$237 million) at time of listing.
Suitability for listing	<p>Having at least one Core Product beyond concept stage:</p> <ul style="list-style-type: none"> • In the categories of pharmaceutical, biologics or medical devices (including diagnostics); and • Such product is recognized by a competent authority (“Competent Authority”) such as US Food and Drug Administration (FDA), National Medical Products Administration (NMPA), European Medicines Agency (EMA), and other national or supranational authorities on a case-by-case basis (which we believe will likely include Health Canada as a credible national-level Competent Authority by the HKEx).
	<p>Core Product must meet development milestones:</p> <ul style="list-style-type: none"> • Pharmaceutical (small molecule drugs): Phase I trial completed and the Competent Authority has no objection to commencement of Phase II (or later) clinical trials. • Biologics: Phase I trial completed and the Competent Authority has no objection to commencement of Phase II (or later) clinical trials. • Medical devices (including diagnostics): Class II (or above) medical devices with at least one clinical trial completed and the Competent Authority has no objection to commencement of further clinical trials. • Other biotech products: HKEx will consider other biotech products on a case by case basis to determine suitability. <p>For in-licensed or acquired Core Product, the applicant must demonstrate R&D progress such as moving from one to next clinical phase or obtaining regulatory approval.</p>
	Being primarily engaged in research and development (“R&D”) for the Core Product for at least 12 months.
	<p>Primary reason for listing must be financing R&D to bring its Core Product to commercialization.</p> <p>For applicants with commercialized Core Product, a portion of listing proceeds can be used to expand new indications and/or launch in new regulated market.</p>
	Having a portfolio of registered patents, patent applications and/or intellectual property in relation to the Core product.
If engaged in R&D of pharmaceutical (small molecule drugs) products or biologic products, having a pipeline of those potential products.	

Working capital	Have available working capital to cover at least 125% of its capital requirement for at least 12 months after IPO.	
Business continuity	At least two years' record of operations in the current line of business under substantially the same management.	
Meaningful investment from sophisticated investor	Meaningful third party investment from at least one sophisticated investor at least six months prior to IPO. Meaningful investment is judged on a sliding scale depending on the market capitalization of the applicant:	
	Market Capitalization	% of issued share capital on listing
	HK\$1.5 – 3 billion (C\$242 – 484 million)	5% or more
	HK\$ 3 – 8 billion (C\$484 million – C\$1.3 billion)	3% or more
	>HK\$8 billion (>C\$1.3 billion)	1% or more

Opportunities for Canadian biotech companies

While majority of the HK-listed biotech companies are China or Hong Kong-based, Chapter 18A is equally available to international issuers including Canadian biotech companies which aspire to raise the required capital to fund their growth. Accessing to global capital through listing on the HKEx is particularly favourable for Canadian biotech companies with a meaningful nexus to the Asian market. For example, Canadian biotech companies with products or technologies that have applications in the growing healthcare market in Asia, e.g. preventative, diagnostic and treatment solutions for certain diseases prevalent among Asians, technology platforms which address the emerging digital trends in the delivery of healthcare in Asia, and innovative solutions for senior care, which be ideal candidates.

In addition to Chapter 18A, HKEx is also dedicated to attract foreign listing through its secondary listing program. Overseas issuers which have a primary listing on another exchange may apply for a “secondary” listing on the HKEx with less stringent regulation than primary listings. For biotech companies that are already listed in Canada, a “shortcut pathway” to dual listing on the HKEx is available to explore. There is no jurisdictional agreement between Canada and Hong Kong similar to the Multilateral Jurisdictional Disclosure System that Canada enjoys with the United States. However, Alberta, British Columbia and Ontario are the jurisdictions that HKEx has formally ruled to be acceptable overseas jurisdictions^[7] supported by precedents including the listing of Sunshine Oilsands (2021.HK), Persta Resources (3395.HK), SouthGobi Energy Resources (1878.HK), China Gold (2099.HK), CTEH Inc. (1620.HK) and Manulife Financial (0945.HK).

McMillan LLP's China Practice Group has expertise and experience in assisting Canadian companies with listings in Hong Kong and market entry to China and is has a long-standing track record of working with Canadian companies which have listed on the HKEx and raised capital in Asia.

[1] [HKEX publishes Consultation Paper on Review of Corporate Governance Code and Related Listing Rules.](#)

[2] [HKEX in Biotech newsletter February 2021.](#)

[3] Based on McMillan research and Capital IQ.

[4] [HKEx Chapter 18A: Biotech Companies of the Hong Kong Main Board Listing Rules.](#)

[5] [According to the HKEX Guidance Letter on Suitability for Listing of Biotech Companies \(HKEX-GL92-18\).](#)

[6] A "Biotech Company" defined under the Chapter 18A of the Main Board Listing Rules ("Listing Rules") refers to a company primarily engaged in the research and development, application and commercialization of products, processes or technologies that involve the application of science and technology to produce commercial products with a medical or other biological application.

[7] [List of Acceptable Overseas Jurisdictions by HKEx.](#)

by [Stephen Wortley](#), [Raj Dewan](#), [Patty Shao](#)

Learn about new developments in sustainability and how McMillan LLP can help you reach your ESG goals [here](#).

Learn more about our China practice [here](#).

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

© McMillan LLP 2021