

THE INITIAL PUBLIC
OFFERINGS LAW
REVIEW

SIXTH EDITION

Editor
Marco Georg Carbonare

THE LAWREVIEWS

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PREFACE

The IPO market to date in 2022 has been difficult across most major jurisdictions, driven primarily by a deterioration of equity capital markets since the beginning of the year, which has been caused by a number of reasons. In particular, in the United States the increase in federal interest rates to address inflationary pressures had a negative impact on equity capital markets generally and IPOs. In Europe, the war in Ukraine and related issues, including uncertainty regarding security of energy supply, contributed to issues caused by deteriorating macroeconomic conditions. As a result, the IPO activity in the first half of 2022 dropped significantly, even when compared not only to the very strong IPO year in 2021 but the average over the past 10 years.

However, the pipeline for IPOs in key markets globally remains very strong, with a large number of issuers across various sectors waiting for improvements in the markets.

Interest in cross-border listings, where IPO candidates decide to pursue a listing outside their home market, remains strong. This trend is driven by a number of factors, including considerations regarding valuation, sector-related considerations and the large number of US-listed special purpose acquisition companies looking for targets abroad. It is, therefore, increasingly necessary to consider the listing and regulatory requirements of different stock exchanges, as well as IPO market practices in different jurisdictions.

This publication provides an overview of the main rules and regulations applying to IPOs in different jurisdictions across the globe and offers great insights into local market practices.

I would like to thank each author for their contribution to the sixth edition of *The Initial Public Offerings Law Review*.

Marco Georg Carbonare

Linklaters LLP

Frankfurt

July 2022

CHINA

*Chen Yang and Zhang Zhao*¹

I INTRODUCTION

There are three primary stock exchanges in China: the Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZSE) and the Beijing Stock Exchange (BSE). The SSE consists of the Main Board and the Sci-Tech Innovation Board (the STAR Board), whereas the SZSE consists of the Main Board, which merged the Small and Medium Enterprises Board (the SME Board) on 6 April 2021, and ChiNext (a board consisting mainly of high-tech companies). The BSE officially opened in November 2021, which is the third stock exchange, and targets small and medium-sized innovative enterprises.

According to the 2020 Annual Report of the China Securities Regulatory Commission (CSRC), as of the end of 2020, 4,154 companies were listed on the SSE and SZSE, with 377 new listings throughout 2020; 2,053 companies were listed on the Main Boards of the SSE and the SZSE; 994 companies were listed on the SME Board; 892 companies were listed on ChiNext; and 215 companies were listed on the STAR Board. The total market capitalisation of these listed companies was 79.72 trillion yuan, which was 78.46 percent of China's total 2020 GDP.

There were three major developments of China's capital market in 2021. First, on 6 April 2021, the Main Board and the SME Board of the SZSE officially merged. The SZSE has entered a new era with a more explicit market position since then. Second, based on deepening reform of the National Equities Exchange and Quotations (NEEQ), the BSE officially opened in November 2021. The companies listed on the former selected layer of NEEQ were chosen to be the first batch on the BSE. The BSE targets small and medium-sized innovative enterprises, which are earlier-staged and smaller-sized than those listed on the SSE and the SZSE. The establishment of the BSE is a landmark event of great significance on improving the multilevel capital market, accelerating the improvement of the financial support system for small and medium-sized enterprises, thus promoting innovation-driven development and economic transformation and upgrading in China.

II GOVERNING RULES

i Main stock exchanges

As discussed in Section I, the SSE consists of the Main Board and the STAR Board, whereas the SZSE consists of the Main Board and ChiNext, and BSE serves small and medium-sized innovative enterprises (thus having no specific trading board yet).

¹ Chen Yang and Zhang Zhao are partners at Han Kun Law Offices.

Main Board (SSE and SZSE)

The Main Board of the SSE primarily attracts established blue-chip companies such as state-owned enterprises. In recent years, however, the Main Board of the SSE attracted private companies from industries other than traditional state-owned blue-chip companies.

The SME Board, which merged with the Main Board of the SZSE on 6 April 2021, targets small and medium-sized enterprises with shares in circulation of under 100 million yuan. The listing requirements for the SME Board and the Main Board are nearly identical.

STAR

On 1 March 2019, the CSRC and the SSE issued the Rules of the STAR, which took effect on the same day. These rules introduced a registration-based system and eased listing standards to accommodate qualified technology companies. On 22 July 2019, the STAR officially opened for trading. As of the end of 2020, 215 companies have listed on the STAR.

The STAR may be considered a breakthrough in China's capital market for the following reasons:

- a* Removal of profit requirement: pre-profit technology industries such as information technology, high-tech manufacturing, new materials, new energy and environmental protection, along with pre-revenue biotech companies, may list on the STAR. In practice, pre-profit companies such as Suzhou Zelgen Biopharmaceuticals Co, Ltd, have successfully passed the SSE's examination and have completed registration procedures with the CSRC, allowing them to list on the STAR.
- b* Unweighted voting rights: the STAR permits, for the first time in the mainland capital markets, technology companies with unweighted rights to list. In practice, UCloud Technology Co, Ltd, which had an unweighted voting rights structure, successfully passed the SSE's examination and completed the registration procedure with the CSRC, allowing it to list on the STAR.
- c* Red-chip companies may list: red-chip companies (those whose parent entity is incorporated outside mainland China and whose primary business activities are in China, including variable interest entity (VIE)-structure companies), may apply for a public offering of its stock in mainland China or through the issuance of Chinese depository receipts (CDRs), though listing standards are higher (see below). In practice, China Resources Microelectronics Limited (CRM) successfully passed the SSE's examination and is awaiting registration with the CSRC.
- d* Spun-off companies may list: the STAR permits, for the first time in mainland capital markets, spun-off technology companies to list.

ChiNext

ChiNext was established on 30 October 2009 to support small and medium-sized enterprises, especially in the high-tech sector. With the reform of the registration-based system of ChiNext, ChiNext adapted to the general trend of relying more on innovation, creation and creativity, mainly serving growth-oriented innovation and entrepreneurship enterprises, and supporting the deep integration of traditional industries with new technologies, new industries, new formats and new models.

The reform of the registration-based system of ChiNext fully draws on the experience and practice of the pilot of the registration-based system of STAR, and basically uses the same rules as STAR in the main aspects of legal rules, issuance conditions, registration procedures, supervision and management.

BSE

The BSE was established on 3 September 2021, which is China's first corporate-based stock exchange approved by the State Council. The BSE mainly serves small and medium-sized innovative enterprises, focusing on supporting enterprises in advanced manufacturing and modern service industries, promoting the transformation and upgrading of traditional industries, and promoting high-quality economic development.

As a part of the reform of the registration-based system, the BSE is piloting a registration-based system, and the institutional arrangements of the BSE are generally consistent with the STAR and ChiNext.

ii Overview of listing requirements

At present, all listing applications are submitted to and approved by the CSRC except for the STAR, ChiNext and the BSE, which have a registration-based system.² If an applicant engages in a business subject to regulatory oversight by specific agencies, the CSRC will require these agencies to issue a no-objection letter in respect of the applicant.

Table 1 sets forth the main requirements for the Main Board, ChiNext, the STAR and the BSE. Tables 2a and 2b set forth the main requirements for red-chip companies. These companies must be qualified enterprises, whether they are listing stocks or CDRs, in addition to satisfying the requirements under the rules of ChiNext and STAR.

Table 1: Issuers incorporated in China

IPO requirements	Main Board	ChiNext	STAR	BSE
Issuer qualifications	A company limited by shares that is duly incorporated and validly exists in China.			A company limited by shares listed on the innovation layer that has been continuously listed on the NEEQ for at least 12 months.
Business records	At least three years of continuous operations or as otherwise approved by the State Council (where a limited liability company is converted into a company limited by shares through the conversion of the entire original book value of its net assets, the term 'continuous operation' may start from the date the limited liability company was established).	At least three years of continuous operations (where a limited liability company is converted into a company limited by shares through the conversion of the entire original book value of its net assets, the term 'continuous operation' may start from the date the limited liability company was established).		<ul style="list-style-type: none"> At least three years of continuous operations (where a limited liability company is converted into a company limited by shares through the conversion of the entire original book value of its net assets, the term 'continuous operation' may start from the date the limited liability company was established). Continuously listing on the NEEQ for at least 12 months.

² Under the registration-based system, listing applications are submitted for approval to the SSE (for the STAR), the SZSE (for the ChiNext) and the BSE. If approved, the application is then registered with the CSRC.

IPO requirements	Main Board	ChiNext	STAR	BSE
Profitability	<ul style="list-style-type: none"> Annual aggregate net profit exceeding 30 million yuan in each of the past three fiscal years (net profit shall be calculated based on the lower net profit before and after deduction of non-regular profits or losses); aggregate net cash flow over 50 million yuan, or aggregate revenue of over 300 million yuan, in each case for the past three fiscal years; and no unrecovered losses at the end of the most recent accounting period. 	N/A after 12 June 2021.	N/A	
Pre-profit alternatives for STAR only	<p>One of the following five thresholds (four of which do not have profitability requirements) where expected market value:</p> <ul style="list-style-type: none"> is not less than 1 billion yuan, net profit in the past two years is positive and the aggregate net profit is not less than 50 million yuan; or expected market value is not less than 1 billion yuan, net profit in the last year is positive and operating income is not less than 100 million yuan (net profit shall be calculated based on the lower net profit before and after deduction of non-regular profits or losses); is not less than 1.5 billion yuan; operating income in the past year is not less than 200 million yuan; and total R&D investment in the past three years accounts for not less than 15 per cent of operating income in the past three years; is not less than 2 billion yuan; operating income in the past year is not less than 300 million yuan; and net cash flow generated from business activities in the past three years is not less than 100 million yuan; is not less than 3 billion yuan; operating income in the past year is not less than 300 million yuan; and is not less than 4 billion yuan; significant business or products need to be approved by relevant government departments; and significant market space and phased results. For pharmaceutical applicants, at least one core product needs to be approved to carry out Phase II clinical trials for new drugs. Other applicants are required to possess 'obvious technological advantages' and meet corresponding conditions. <p>Expected market value means total equity following the IPO multiplied by the offering price.</p>			
Pre-profit alternatives for ChiNext only	<p>One of the following three thresholds (one of which does not have profitability requirements) where expected market value:</p> <ul style="list-style-type: none"> is the net profit in the past two years is positive, and the aggregate net profit is not less than 50 million yuan; is not less than 1 billion yuan; operating income in the past year is not less than 100 million yuan; and the net profit in the past year is positive; and is not less than 5.0 billion yuan; and operating income in the past year is not less than 300 million yuan. <p>Expected market value means total equity following the IPO multiplied by the offering price.</p>			
Pre-profit alternatives for the BSE only	<p>One of the following four thresholds (three of which do not have profitability requirements) where expected market value:</p> <ul style="list-style-type: none"> is not less than 200 million yuan; net profit in each of the past two years is not less than 15 million yuan or net profit in the past year is not less than 25 million yuan; and the weighted average return on net assets is not less than 8 per cent; is not less than 400 million yuan; average operating income in the past two years is not less than 100 million yuan; growth rate of operating income in the past year is not less than 30 per cent; and net cash flow generated from business activities in the past year is positive; is not less than 800 million yuan; operating income in the past year is not less than 200 million yuan; total R&D investment in the past two years accounts for not less than 8 per cent of the total operating income in the past two years; and is not less than 1.5 billion yuan and total R&D investment in the past two years is not less than 50 million yuan. <p>Expected market value means total equity following the IPO multiplied by the offering price.</p>			
Assets	Proportion of intangible assets (after deduction of land use aquaculture, mining and similar rights) at the end of the most recent accounting period in net assets of ≤20 per cent.	N/A	Net assets ≥50 million yuan at the end of the most recent accounting period.	

IPO requirements	Main Board	ChiNext	STAR	BSE
Capital	Pre-listing capitalisation of ≥ 30 million yuan; and post-listing capitalisation of ≥ 50 million yuan.	Post-listing capitalisation of ≥ 30 million yuan.		
Minimum public shareholding	When the post-listing capitalisation is ≤ 400 million yuan, the public shareholding ratio shall not be less than 25 per cent. When the post-listing capitalisation is > 400 million yuan, the public shareholding ratio shall not be less than 10 per cent.	Shares that are offered publicly of ≥ 1 million; the number of the public offering objects of ≥ 100 ; and the number of the post-listing shareholders of ≥ 200 . When the post-listing capitalisation is ≤ 400 million yuan, the public shareholding ratio shall not be less than 25 per cent; when the post-listing capitalisation is > 400 million yuan, the public shareholding ratio shall not be less than 10 per cent.		
Major business	No significant changes in the past three years.	No adverse significant changes in the past two years.		No significant changes in the past 24 months.
Directors and senior management	No significant changes in the past three years.	No adverse significant changes in the past two years.		
Actual controller	No change in the past three years (the definition of 'actual controller' is based on several legally prescribed factors that are applied to each individual case based on the facts and circumstances of such case).	No change in the past two years.		No change in the past 24 months.
Clarity of ownership	The issuer's equity structure shall be well-defined, without any significant dispute over the shares of the issuer held by the controlling shareholders, or held by shareholders that are controlled by the controlling shareholders or the actual controllers.	The shares held by the controlling shareholders, or held by shareholders that are controlled by the controlling shareholders or the actual controllers are clear. And there are no significant ownership disputes leading to a possible change of control.		
Internal control	<ul style="list-style-type: none"> Effective internal control systems in all significant respects; and an unreserved internal control report issued by a certified accountant. 	<ul style="list-style-type: none"> Effective internal control systems in all significant respects, proving the issuer's operational efficiency, legality and compliance, and the accuracy of its audit report; and an unreserved internal control report issued by a certified accountant. 		
Corporate governance	The issuer must have complete organisations of good standing as well as the relevant institutions.			
Finance	An audit report for the last three years issued by a certified accountant with unqualified advice.			

IPO requirements	Main Board	ChiNext	STAR	BSE
Competition	<p>The issuer's business must not compete with the business of the issuer's controlling shareholders, actual controllers, or other enterprises controlled by such controlling shareholders or actual controllers. The definitions of 'controlling shareholders' and 'actual controllers' are based on several legally prescribed factors that are applied to each individual case based on the facts and circumstances of such case.</p> <p>Although this item was officially removed in a 2015 revision of the listing rules on the condition that there is full disclosure of this item in the prospectus, in practice, the CSRC still devotes special attention to this item. Therefore, it is effectively still a listing requirement.</p>	<p>The business of the issuer's controlling shareholders, actual controllers, or other enterprises controlled by such controlling shareholders or actual controllers must not compete with the issuer's business in a manner that may have a significant adverse impact on the issuer.</p>		
Related-party transactions	<p>No unreasonable related-party transactions; related-party transactions must be at arm's length and must not manipulate profits.</p>	<p>Related-party transactions must not significantly influence the issuer's independence or be unreasonable.</p>		
Fund management	<p>Rigorous fund-management procedures; the issuer's fund is not controlled by any controlling shareholder, actual controller or other enterprises controlled by any controlling shareholder or actual controller in respect of borrowing, the use of debt as compensation, advance payments or any other similar form.</p>	<p>Not a listing requirement, but required to be disclosed in the prospectus.</p>		
Tax	<p>Taxes paid in accordance with law; no heavy reliance on tax preferences.</p>	<p>Not a listing requirement, but required to be disclosed in the prospectus.</p>		
Debt	<p>No need to significantly rectify ownership of major assets; no major credit risk; not a party to any major contingent liability such as a guarantee, litigation or arbitration that may adversely affect the issuer's continuous operation.</p>	<p>No need to significantly rectify ownership of major assets, core technologies, trademarks, etc.; no major credit risk; not a party to any major contingent liability such as a guarantee, litigation or arbitration that may adversely affect the issuer's continuous operation.</p>	<p>Not a listing requirement, but required to be disclosed in the prospectus.</p>	

IPO requirements	Main Board	ChiNext	STAR	BSE
Use of proceeds	Definitive plan for use of IPO proceeds; generally, IPO proceeds will be used for the major business and investment projects.	Generally, IPO proceeds will be used for the major business and investment projects. The issuer shall disclose the contribution of the raised funds to the development of the main business of the issuer, the impact of the future business strategy, and the supporting role of the business innovation and creativity of the issuer.	Generally, IPO proceeds will be used for the major business and investment projects. The issuer shall disclose the specific arrangements for the key investment of the raised funds in the field of scientific and technological innovation.	IPO proceeds shall be used for the major business and related business areas.
Legal compliance	<ul style="list-style-type: none"> The issuer's operations comply with laws, administrative regulations, article of association and national industrial policy; in the past 36 months, no unauthorised direct or indirect public offering of shares, or if any of the above illegal practices are still currently in existence; and no other material non-compliance in the past 36 months. 	<ul style="list-style-type: none"> The issuer's operations comply with laws and administrative regulations and national industrial policy; in the past three years, neither the issuer, its controlling shareholders nor its actual controllers have committed the criminal offences of embezzlement, bribery, embezzlement of property, misappropriation of property or destruction of the order of the socialist market economy, nor have they committed fraudulent issuance, illegal disclosure of major information and any other major offences involving national security, public security, environmental security, production security, public health security, etc.; and in the past three years, the directors, supervisors and senior management have not been subject to administrative penalties by the CSRC, and they are neither being investigated by the judicial authorities for suspected crimes nor are being investigated by the CSRC for suspected violations of law, and no clear conclusion has been reached. 	<ul style="list-style-type: none"> The issuer's operations comply with laws and administrative regulations; in the past 36 months, neither the issuer, its controlling shareholders nor its actual controllers have committed the criminal offences of embezzlement, bribery, embezzlement of property, misappropriation of property or destruction of the order of the socialist market economy, nor have they committed fraudulent issuance, illegal disclosure of major information and any other major offences involving national security, public security, environmental security, production security, public health security, etc.; in the past 12 months, the issuer and its controlling shareholders, directors, supervisors and senior management have not been subject to administrative penalties by the CSRC and its dispatching agencies, or publicly reprimanded by the NEEQ, the stock exchange and other self-regulatory bodies for illegal acts in the securities market.; the issuer and its controlling shareholders, actual controllers, directors, supervisors and senior management are neither being investigated by the judicial authorities for suspected crimes nor are being investigated by the CSRC and its dispatching agencies for suspected violations of law, and no clear conclusion has been reached; and no other material non-compliance in the past 36 months. 	
Business capacity	Sustainable profitability.	Sustainable operational capability.		
Other authorities' opinions	Subject to the opinions of the provincial government.	N/A		

Table 2a: Red-chip issuers: qualifying enterprises

Issuer qualifications	Large red-chip companies already listed overseas	Large unlisted red-chip companies
Expected market value/operating income/valuation	Expected market value is not less than 200 billion yuan.	Operating income is not less than 3 billion yuan in the past year; and valuation is not less than 20 billion yuan.
Alternatives	Independent R&D capability, leading international technology and advantageous market position, with an expected market value not less than 20 billion yuan.	Accelerated operating income, independent R&D capability, leading international technology and advantageous market position, with an expected market value not less than 10 billion yuan or an expected market value not less than 5 billion yuan and operating income not less than 500 million yuan in the past year.
Status	Issuer conforms to standards relating to national strategy, achieving core technology and market acceptance.	
Industry	Innovative enterprises that have achieved considered scale such as the internet, big data, cloud computing, artificial intelligence, software and integrated circuits, high-tech manufacturing, biotech and other high-tech industries, and strategic emerging industries.	

Table 2b: ChiNext and STAR rules for red-chip issuers

Requirements	Issuance of stock	Issuance of CDRs
Listing requirements	Be a qualifying enterprise (see Table 2a).	
	Satisfy the other threshold listing requirements of ChiNext or STAR.	<ul style="list-style-type: none"> • Basic listing requirements in Article 12 of the Securities Law of China (2019 amendment); • complete and seamlessly operating organisation; • capacity to achieve profits continuously and sound financial status; • no false record in its financial statements over the past three years and no other major irregularity; and • any other requirements as prescribed by the securities regulatory authority under the State Council, which have been approved by the State Council. <p>(The capacity to achieve profits continuously does not mean the profits have to be realised at the time of listing.)</p>
Jurisdiction	The company law of the issuer, but higher standards will be applied for the purposes of investor protection.	
Disclosure	Full disclosure of any VIE structure, unweighted voting rights or other similar arrangement.	

Compared with the NYSE, Nasdaq and the Hong Kong Stock Exchange, Chinese stock exchanges are currently unique in the following respects (however, as stated above, reforms of ChiNext, the STAR and the BSE have already taken effect, and the 2019 Securities Law has substantially altered China's IPO landscape):

- a Applicant eligibility: unlike the NYSE, Nasdaq and the Hong Kong Stock Exchange, A-share applicants have to be companies limited by shares that are incorporated in China. Therefore, foreign issuers (such as Hong Kong, US or Cayman parent companies) cannot be listed on Chinese stock exchanges. However, a joint venture incorporated in China operating in a non-restricted industry where foreign investment is permitted may list on Chinese stock exchanges. Furthermore, eligible red-chip companies may apply to list on ChiNext and the STAR.
- b Financial criteria: unlike the NYSE, Nasdaq and the Hong Kong Stock Exchange, each financial listing threshold requires the issuer's net profits to be positive. However, pre-profit companies are permitted to apply to list on ChiNext, the STAR and the BSE. Furthermore, the 2019 Securities Law revised a core listing condition for IPOs

- in China from ‘sustainable profitability’ to ‘sustainable operational capability’, which means there is a good chance that profitability requirements on all stock exchanges, not just ChiNext, the STAR and the BSE, may be lifted in the future.
- c* Review process: the CSRC currently still uses an approval (rather than a registration) system that requires substantive review of all issuers. As a result, review times tend to be relatively longer and susceptible to policy considerations. As mentioned above, after the comprehensive promotion of the registration-based system, the role of the CSRC will turn towards being responsible for reviewing registration applications and supervising the capital market. However, with the introduction of the registration-based system under the 2019 Securities Law, the CSRC will no longer be responsible for reviewing listing applications. Rather, the CSRC will instead review registered applications and supervise capital markets generally.
 - d* Board of supervisors requirement: A-share listed companies are required to have a board of supervisors consisting of at least three members. Employee representative supervisors may not be less than one-third of the board of supervisors. Directors and senior management may not concurrently be supervisors. The purpose of the supervisor is to oversee the activities of the board of directors and the senior management.
 - e* Competition: the CSRC devotes special attention to analysing potential competition between the issuer, on the one hand, and its controlling shareholders, actual controllers or the enterprises controlled by the controlling shareholders or actual controllers on the other. Generally, mere disclosure of such potential competition in the prospectus will be insufficient and the absence of such competition is effectively still a listing requirement, even though this item was officially removed in the 2015 revision of the listing rules.
 - f* Foreign investment restrictions: if the issuer conducts business in an industry where foreign investment is restricted or prohibited (according to law or in practice), the issuer may not list in China. The CSRC will not accept indirect control arrangements such as VIE structures, unlike the NYSE, Nasdaq and Hong Kong Stock Exchange. However, red-chip enterprises (including those with VIE structures) can now apply to list on ChiNext and the STAR. To date, Segway-Ninebot Limited, a company with a VIE structure, has successfully listed on the STAR through the issuance of CDRs.
 - g* Lock-up periods: except the companies that listed on the BSE, the listing rules for Chinese IPOs specifically state that the controlling shareholders or actual controllers are subject to a three-year lock-up period, and all other shareholders are generally subject to a one-year lock-up period. The controlling shareholders, actual controllers and entities holding more than 10 per cent of the shares directly or indirectly of companies listed on the BSE are subject to a 12-month lock-up period. This differs from other jurisdictions, where lock-up periods are primarily determined by the underwriters and not by the listing rules. The length of the lock-up period is also longer than in Hong Kong, where controlling shareholders are only subject to a six-month lock-up period.

iii Overview of law and regulations

The listing requirements for the Main Board (SSE and SZSE) are set forth in the Administrative Measures for Initial Public Offerings and Listings of Shares. The listing requirements for ChiNext are set forth in the Measures for the Administration of Registration of Initial Public Offerings of Stocks on the ChiNext Market (for Trial Implementation) and the Rules Governing the Listing of Stocks on the ChiNext Market of Shenzhen Stock Exchange

(2022 Revision). The listing requirements for the STAR are set forth in the Measures for the Administration of the Registration of Initial Public Offerings of Stocks on the STAR Market (for Trial Implementation) (2020) and the Rules Governing the Listing of Stocks on the STAR Market of Shanghai Stock Exchange (2020 Revision). The listing requirements for the BSE are set forth in the Measures for the Administration of Registration of Public Offerings of Stocks to Unspecific Qualified Investors on Beijing Stock Exchange (for Trial Implementation) and the Rules Governing the Listing of Stocks on the Beijing Stock Exchange (for Trial Implementation). All listings must comply with the requirements set forth by the Company Law, the Securities Law and other specific rules and requirements of the applicable exchange.

With regard to the CSRC's application of these rules, there have been the following general trends.

Accelerated review

The CSRC's review schedule accelerated, starting in the middle of November 2016. In 2017, the CSRC's issuance examination committee reviewed 488 IPO applications – a much faster pace than in previous periods. In 2018, 2019, 2020 and 2021 the CSRC maintained this accelerated pace. In fact, for ChiNext and the STAR, the review period in practice has been much shorter than these years, with an average time of approximately nine to 12 months, in line with or even shorter (in some cases) than international standards. For the BSE, the entire review period in practice is even shorter than ChiNext and the STAR.

Increased success rate of applications

Although the CSRC has accelerated its review of prospective applications, its practice of only selecting high-quality applicants that meet its listing standards reduced the overall success rate of applications in 2019. In 2016, the CSRC's issuance examination committee reviewed 266 applications, of which 241 were successful, resulting in a pass rate of 90.6 per cent. However, in 2017, the CSRC's issuance examination committee reviewed 488 applications (83 per cent more than the previous year), of which 380 were successful, resulting in a pass rate of 77.87 per cent. In particular, from 17 October 2017 (the date when the new issuance examination committee took office) to 28 December 2017, the pass rate for IPO applications was at just 57.78 per cent, significantly lower than before.³ In 2018, the CSRC's issuance examination committee reviewed 185 applications (a much lower number than previous years), of which 111 were successful, resulting in a pass rate of about 60 per cent,⁴ which is the lowest in the past five years.

In 2019, the pass rate for STAR IPOs was 95 per cent, with the same pass rate of 2020.⁵ In 2021, the pass rate for STAR IPOs decreased to 92 per cent, and the pass rate for ChiNext IPOs was 95 per cent.⁶ Owing to the roll-out of the STAR in 2019 and of ChiNext with

3 Prior to 17 October 2017, the issuance examination committee consisted of two different committees, one for the Main Board and the SME Board, and one for ChiNext. From 17 October 2017 onwards, these two committees were combined into one committee.

4 Based on public data of the CSRC.

5 Based on public data of the SSE.

6 Based on public data of the SSE and SZSE.

registration-based system in 2020, and of the BSE with registration-based system in 2021, the CSRC's approach to applicants proposing to list on other stock exchanges also changed, with a bias towards approval.

III THE OFFERING PROCESS

i General overview of the IPO process

Listing in China involves steps that are common in other jurisdictions (due diligence and document preparation, including the prospectus), as well as steps that are unique to China (pre-listing review, conversion from a limited liability company to a company limited by shares and CSRC approval). Below is a brief overview of the IPO process in China. For stock exchanges except ChiNext, the STAR and the BSE, the time frames set forth in Table 3a reflect common practice prior to the effectiveness of the 2019 Securities Law. The time frames set forth in Table 3b reflect common practice for applicants proposing to list on ChiNext and the STAR, and the time frames set forth in Table 3c reflect common practice for applicants proposing to list on the BSE. Specific time frames for individual applicants may vary from those set forth in Table 3a, Table 3b and Table 3c.

Table 3a: The IPO process for the Main Board

Step	Particulars	Timetable
Due diligence	The sponsor, auditors, legal advisers and other stakeholders conduct due diligence of the issuer, set IPO terms (such as the target amount to be raised), advise the issuer on the IPO process and assist the issuer in complying with IPO requirements.	T-90 days
Restructuring	The issuer is restructured into a company limited by shares (as required under law); stakeholders prepare a restructuring plan, audit and appraise the issuer's assets, and prepare sponsor agreements and the issuer's articles of association; the issuer executes the restructuring plan and establishes relevant internal departments in accordance with listing rules.	T-45 days
Pre-filing review	The local counterpart of the CSRC conducts pre-listing guidance work.	T-15 days
Filing	The sponsor files the IPO application documents with the CSRC; once the CSRC states the application documents are complete, the CSRC decides whether to accept the filing within five business days.	T*
CSRC procedures	<ul style="list-style-type: none"> • Acceptance of the application from the CSRC; • pre-disclosure; • feedback; • face-to-face meeting; • reply to the CSRC's feedback; • pre-disclosure updates; • preliminary review; • examination of selected disclosures (if any); • attendance of the issuance examination committee meeting; • reply to the issuance examination committee's questions or requirements (if any); • sealing of IPO application-related documents; • post-meeting review by the issuance examination committee; and • obtaining of official approval and issuance. 	
Preparation by the exchange	<ul style="list-style-type: none"> • Approval from the CSRC; • negotiation with traders about stock abbreviation, stock code, etc; • submission of documents to the relevant exchange; • amendment registration with the Administration for Industry and Commerce; and • listing and trading on the relevant exchange. 	

* T refers to the date when the CSRC accepts the IPO application. Days are calendar days.

Table 3b: The IPO process for ChiNext and the STAR

Step	Particulars	Timetable
Due diligence	The sponsor, auditors, legal advisers and other stakeholders conduct due diligence of the issuer, set IPO terms (such as the target amount to be raised), advise the issuer on the IPO process and assist the issuer in complying with IPO requirements.	T-90 days

Step	Particulars	Timetable
Restructuring	The issuer is restructured into a company limited by shares (as required under law); stakeholders prepare a restructuring plan, audit and appraise the issuer's assets, and prepare sponsor agreements and the issuer's articles of association; the issuer executes the restructuring plan and establishes relevant internal departments in accordance with listing rules. The foregoing does not apply to applicants proposing to list under the CDR regime.	T-45 days
Pre-filing review	Communicate potential issues with the SSE or SZSE electronically or in person.	T-15 days
Filing	The sponsor files the IPO application documents with the SSE or SZSE; once the SSE or SZSE states the application documents are complete, it has five business days to decide whether to accept the filing.	T*
SSE/SZSE procedures	<ul style="list-style-type: none"> • Acceptance of the application from the SSE or SZSE; • pre-disclosure; • first round of inquiries; • face-to-face meeting (if necessary); • feedback; • multiple rounds of further inquiries; • reply to the SSE's or SZSE's feedback; • consultation with the SSE or SZSE regarding industry issues; • face-to-face inquiries (if necessary); • issuance of the audit report by a department of the SSE or SZSE; • pre-disclosure; • attendance of the issuance examination committee meeting; • hearing; • release of the issuance examination committee's opinion; and • SSE or SZSE issues opinion. 	T+220 days
CSRC procedures	<ul style="list-style-type: none"> • Report to the CSRC and obtain its official approval; • pre-disclosure updates; and • disclosure of the prospectus. 	T+300 days
* T refers to the date when the SSE or SZSE accepts the IPO application. Days are calendar days.		

Table 3c: The IPO process for BSE

Step	Particulars	Timetable
Due diligence for listing on the NEEQ	The sponsor, auditors, legal advisers and other stakeholders conduct due diligence of the issuer, advise the issuer on the process for listing on the NEEQ and assist the issuer in complying with requirements for listing on the NEEQ.	T-550 days
Restructuring	The issuer is restructured into a company limited by shares (as required under law); stakeholders prepare a restructuring plan, audit and appraise the issuer's assets, and prepare sponsor agreements and the issuer's articles of association; and the issuer executes the restructuring plan and establishes relevant internal departments in accordance with listing rules.	T-505 days
Filing for listing on the NEEQ	The sponsor files the application documents with the NEEQ; once the NEEQ states the application documents are complete, it has two business days to decide whether to accept the filing.	T-460 days
NEEQ procedures	<ul style="list-style-type: none"> • Acceptance of the application from the NEEQ; • first round of inquiries; • feedback; • multiple rounds of further inquiries; • reply to the NEEQ's feedback; and • NEEQ issues a letter of approval for listing. 	T-400 days
Listing on the NEEQ, and quoting at the innovation layer	The issuer lists on the NEEQ and enters into the innovation layer at the same time or after then.	T-365 days
Due diligence for listing on the BSE	The sponsor, auditors, legal advisers and other stakeholders conduct due diligence of the issuer, set IPO terms (such as the target amount to be raised), advise the issuer on the IPO process and assist the issuer in complying with IPO requirements.	T-300 days
Pre-filing review	Communicate potential issues with the BSE electronically or in person.	T-15 days
Filing for listing on the BSE	The sponsor files the IPO application documents with the BSE; once the BSE states the application documents are complete, it has five business days to decide whether to accept the filing.	T*

Step	Particulars	Timetable
BSE procedures	<ul style="list-style-type: none"> • Acceptance of the application from the BSE; • pre-disclosure; • first round of inquiries; • face-to-face meeting (if necessary); • feedback; • multiple rounds of further inquiries; • reply to the BSE's feedback; • face-to-face inquirers (if necessary); • issuance of the audit report by a department of the BSE; • pre-disclosure; • attendance of the issuance examination committee meeting; • hearing; • release of the issuance examination committee's opinion; and • BSE issues opinion. 	T+150 days
CSRC procedures	<ul style="list-style-type: none"> • Report to the CSRC and obtain its official approval; • pre-disclosure updates; and • disclosure of the prospectus. 	T+220 days
* T refers to the date when the BSE accepts the IPO application. Days are calendar days.		

ii Pitfalls and considerations

Under the registration-based system, the following issues arose most frequently for the unsuccessful applicants:

- a* disclosure issues;
- b* compliance issues;
- c* mismatch of industry with the target board;
- d* excessive concentration of customers;
- e* use of proceeds-related issues;
- f* corporate governance issues;
- g* authenticity of finance and accounting;
- h* unreasonable transfer of benefit or profit; and
- i* defective reports issued by advisers.

This is not an exhaustive list of reasons, and one factor may not necessarily be decisive in an application's denial. However, they serve as a useful guide for prospective issuers.

iii Considerations for foreign issuers

As stated above, prior to the launch of ChiNext with a registration-based system and the STAR, an issuer must be a company limited by shares incorporated in China. Accordingly, non-Chinese corporate bodies may not list on Chinese stock exchanges. However, these restrictions do not prevent joint ventures with foreign ownership that do not operate in a restricted or prohibited industry from listing in China. Established offshore incorporated eligible red-chip companies may list on ChiNext and the STAR.

IV POST-IPO REQUIREMENTS

Listed companies in China are subject to continuous disclosure requirements, including regular and ad hoc reporting. Generally, regular reporting includes the annual report, biannual report and quarterly reports. Ad hoc reporting is required when listed companies

encounter significant events or shareholding changes (e.g., over 5 per cent shareholding, change in shareholding of directors or senior management). Tender offer rules also apply for shareholders who acquire more than 30 per cent of the issuer's shareholding after listing.

V OUTLOOK AND CONCLUSION

The most significant change in China's domestic IPO market in 2021 was the establishment of the BSE.

The accelerated review periods and high success rates of applicants, including pre-profit companies and those with unweighted voting rights structures, suggests that ChiNext, the STAR and the BSE will be viable and attractive options for new industries and high-tech, even early-staged and small (for the BSE) Chinese companies going forward.

While the 2019 Securities Law officially took effect on 1 March 2020, the CSRC recently focused not only on an applicant's financial performance and sustainable profitability, but also on internal controls, and the transparency, authenticity and accuracy of disclosures. This may preview the approach taken by the stock exchanges and the CSRC when reviewing IPO applications in the future.

The Chinese capital market has undergone a number of significant reforms in recent years since 2018. The market is looking forward to the full implementation of the registration system for IPOs, which will create a more favourable environment for domestic and eligible foreign companies to raise capital more effectively in the domestic capital market.

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