

Hong Kong as an International Financial Centre – Enhancement of Hong Kong’s IPO offerings

March 2022



Introduction

Capturing Opportunities for Hong Kong

Strengthening Hong Kong as a Premier Global Capital Formation Centre

- i. Updating the listing framework in response to market development
- ii. Providing an effective financing channel for SMEs

HK's strong IPO market and its listing framework

2021 HK IPO at a glance



- Hong Kong is ranked as the world's number one IPO venue 7 times over the past 13 years



- Hosted 98 new listings in total in 2021, in which a total of HK\$329 billion was raised



- A total of 2,572 listed company as at end of 2021, with a total market capitalization of HK\$41.2 trillion

Versatility in the HK Listing Framework

A new era in 2018

The new set of rules has made listings of ***pre-revenue biotech issuers and companies with individual WVR structures*** permissible, while also introduced a concessionary route for companies from ***Greater China and international markets to secondary list in Hong Kong.***

Broadening investment opportunities for investors

Greater China and Overseas issuers without a WVR structure are permitted to secondary list on the Exchange ***without having to demonstrate the “innovativeness”*** in their business, on that basis that the issuers have fulfilled the corresponding market capitalisation and other listing requirements.



Introduction

Capturing Opportunities for Hong Kong

Strengthening Hong Kong as a Premier Global Capital Formation Centre

- i. Updating the listing framework in response to market development
- ii. Providing an effective financing channel for SMEs

Capturing opportunities for Hong Kong

Accelerated Development of “New Economy”

- Home to the world’s four largest unicorns, China is also to the origin of around 40% of the global unicorns. New economy industries accounted for 28.1% of Mainland China’s overall economic input activities in December 2021, while that on average for 2021 is estimated at 28.6%
- In 2021, while 73% of the IPO fund raised was contributed by TMT (38%), industrials (12%) and healthcare/life science (23%) sectors.
- Concurrently, a local ecosystem for biotech and new economy industries in Hong Kong and the GBAs has been cultivated and continues to gain traction.

Top 3 sectors of 2021, by total funds raised



Top 3 sectors of 2020, by total funds raised



Capturing opportunities for Hong Kong

The evolving 'homecoming' environment

- Geopolitical uncertainties have continued to linger and shadow business operations, especially for Chinese companies listed in the US exchanges. Among the IPO listings in 2021 were a number of dual and secondary listings of US-listed companies with the centre of gravity in Greater China.
- There were also a total of 5 concessionary secondary listings under Chapter 19C, in addition to 20 biotech companies under Chapter 18A and 9 listings with WVR structure at the end of 2021.



**Hong Kong
as an attractive listing venue for
overseas companies in the Asia
time zone**

Opportunities for Hong Kong:

- The 'homecoming' opportunities for Hong Kong are not just from secondary listings, but are also particularly arising from dual-primary listings.
- Another possible area to develop is to expand HKEX's international composition by attracting more overseas companies, other than Greater China issuers having variable interest entities structures. Companies from nearby manufacturing bases, such as ASEAN countries and on the Belt and Road should be considered. This expanded international composition will in turn make Hong Kong yet more attractive for Chinese issuers.



Introduction

Capturing Opportunities for Hong Kong

Strengthening Hong Kong as a Premier Global Capital Formation Centre

- i. Updating the listing framework in response to market development**
- ii. Providing an effective financing channel for SMEs

Strengthening Hong Kong as a premier global capital formation centre

1) Updating the listing framework in response to market development

Creating a friendly listing framework for innovative pre-revenue companies



Fast growing sectors that emerged in recent years, including new mobility, environmental, social and governance (ESG), Software as a Service (SaaS), hard tech sectors had gained strong momentum recently both in Mainland and the US.

Due to their new and innovative nature, many of these new economy companies require heavy investment in research and development (R&D), and see a longer product development cycle.



✓ Explore the possibility of applying some of the framework and listing requirement features of Chapter 18A to new economy companies (eg. hard-tech companies.)

Interpretation and definition of “innovative companies”



Some *bankers and legal professionals* shared their views that the subjective and restrictive “innovative” requirement is a serious concern to many new economy firms considering Hong Kong as a listing venue



There are particular concerns from *issuers* in relation to the fact that companies are required to demonstrate its innovative success which serves to differentiate the company from existing players

✓ Eligibility of “innovativeness” for issuers with WVR structure listed through Chapter 8A of the listing rules should be reviewed



Introduction

Capturing Opportunities for Hong Kong

Strengthening Hong Kong as a Premier Global Capital Formation Centre

- i. Updating the listing framework in response to market development
- ii. Providing an effective financing channel for SMEs**

2) Providing an effective financing channel for SMEs

SME opportunities alongside development of GBA and ESG

- Rapid development in ESG considerations has provided new perspectives to providing financing support for SMEs. Access to adequate funding is essential for companies to continue their devotion to technological research and development.
- As the investment gateway linking Mainland China and the rest of the world, Hong Kong can enable the implementation of the “dual circulation” development blueprint in the GBA and other Mainland areas.

International and Mainland experiences in supporting SME financing

- Globally, much emphasis has been placed on supporting SME financing, as SMEs not only represent about 90% of businesses, but also more than 50% of employment, which makes SME development a high priority for many governments around the world.
- In Mainland China, the reformative establishment of the Beijing Stock Exchange (BSE) is a manifest of the policy makers’ commitment to supporting SME financing, which is further elevated by the flexibility provided in its listing rules.

Developing SME access to the exchange market

- GEM appears to be much less vibrant as a financing platform for its targeted participants. Financing activities on the GEM Board have been on a further decline in recent years – a total of 8 new listings were seen in year 2020 and only HKD 3.6 billion of total funds raised was recorded.
- Many SMEs which are in the growth and development stage may find themselves ineligible for any form of listing on the exchange market in Hong Kong under the existing market structure and corresponding listing requirements for various reasons.



Presented with tremendous growth potential of SMEs in the region, Hong Kong should reassess if the existing market structure remains conducive to the city’s capturing SME opportunities. **To this end, the FSDC considers it appropriate for the HKEX to conduct an open-end, holistic review of relevant frameworks and mechanisms.**

Thank you

Contacts

The Financial Services Development Council

Unit 502, 5/F, Nexus Building, No. 41 Connaught
Road Central
Hong Kong

Tel: (852) 2493 1313

Email: enquiry@fsdc.org.hk

LinkedIn



Website



Hashtag

FSDCHK