

IPO Activities In Hong Kong

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Executive Summary

- During 1997-2002, IPOs contributed 29% to the total amount of funds raised on HKEx.
- Of the funds raised through IPOs, a large portion was raised on international markets indirectly through Hong Kong. As the shares issued are registered with HKEx, the amount of funds raised was included in the amount reported by HKEx. Funds raised indirectly on international markets accounted for 63% of the total amount from IPOs. IPOs which raised funds internationally were on average larger in size.
- Mainland enterprises² accounted for a large share of funds raised on HKEx. During 1997-2002, 74% of the total amount of funds raised from IPOs was for Mainland enterprises. In addition, IPOs which raised funds for Mainland enterprises were on average larger in size.
- Hong Kong appears to be a preferred place for overseas listings for Mainland enterprises. Of the 76 overseas listings as of the end of 2002, 74 were in Hong Kong.

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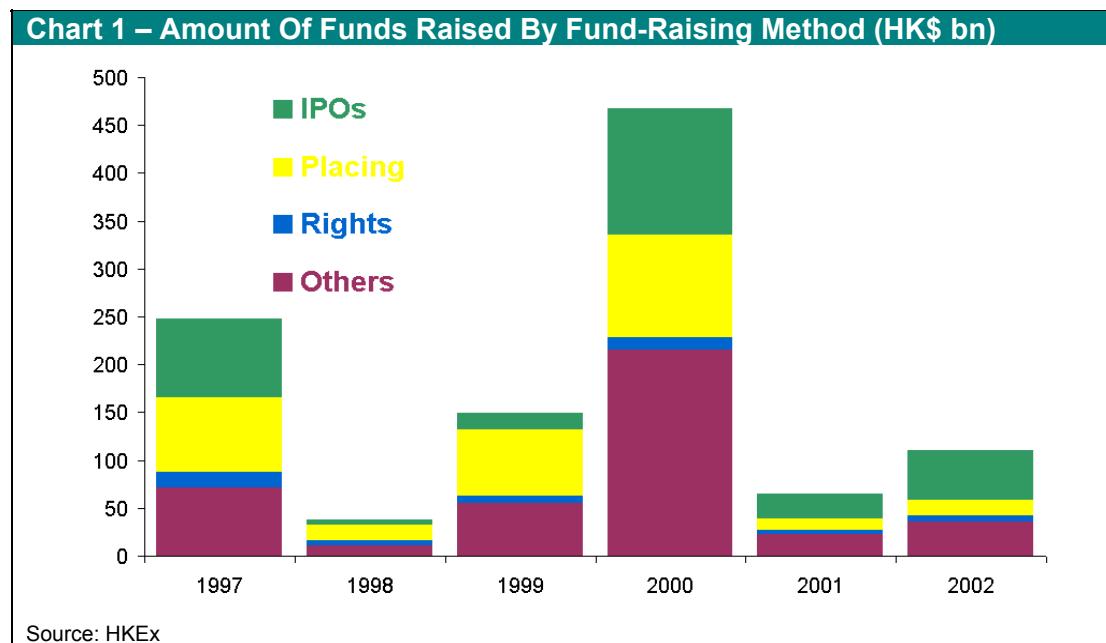
² The Mainland enterprises include H-shares and red-chips. Following the definitions of HKEx,

- H-share companies refer to companies incorporated in the People's Republic of China and approved by the China Securities Regulatory Commission for a listing in Hong Kong. Shares of these Chinese enterprises are listed on the Stock Exchange, subscribed for and traded in Hong Kong dollars, or other currencies, and referred to as H-shares. After finding its way into the Listing Rules, the term H-shares has been accepted by and widely used in the market. The letter H stands for Hong Kong.
- Red-chips refer to companies which
 - have at least 30% shareholding held in aggregate by Mainland China entities, and/or indirectly through companies controlled by them, with the Mainland China entities being the single largest shareholders in aggregate terms. Or
 - if the shareholding of the company held in aggregate directly and/or indirectly by Mainland China entities is below 30% but is 20% or above and there is a strong influential presence, on a judgemental basis, of Mainland China-linked individuals on the company's board of directors.

Mainland China entities include state-owned enterprises, and entities controlled by provincial and municipal authorities.

IPOs Contributed 29% To The Total Amount Of Funds Raised

During 1997-2002³, a total amount of HK\$1,077.8 bn was raised on HKEx (Main Board and GEM combined). By fund-raising method, 29.1% (HK\$313.3 bn⁴) was from IPOs, 27.8% (HK\$299.3 bn) from placings, 4.9% (HK\$52.6 bn) from rights⁵ and 38.2% (HK\$411.3 bn) from others. Appendix 1 provides the definitions and detailed explanations of the various fund-raising methods.



During 1997-2002, there were a total of 447 IPOs or an average of 74.5 IPOs per year (ranging from the trough of 29 IPOs in 1998 to the peak of 112 IPOs in 2002). 16 of these IPOs were by introduction (i.e. not offered to the public) and the remaining 431 were IPOs offered to the public.

In dollar terms, funds raised through IPOs amounted to HK\$313.3 bn during the period or an average of HK\$52.2 bn per year (ranging from the trough of HK\$6.4 bn in 1998 to the peak of HK\$132.0 bn in 2000). On a per IPO basis, the average amount of funds raised was HK\$0.73 bn⁶.

³ IPO figures were obtained from various issues of the SEHK Fact Book. Where figures are inconsistent, the latest reported figures are adopted.

⁴ This figure did not include the value of over-allotment of about HK\$1.3 bn because breakdown of the over-allotment by location and/or by stock type is not available. This is to ensure consistency of figures in later sections which focus on the amount of funds raised by location and/or by stock type. The exclusion of over-allotment does not affect the analysis in any significant manner due to the relatively small amount.

⁵ For the purpose of this paper, rights include rights issues and open offers.

⁶ This excluded the 16 IPOs which were listed by way of introduction.

IPO Activities On International Markets

A Large Proportion Of Funds Raised Through IPOs Was Indirectly On International Markets

Of the funds raised for the 431 IPOs during 1997-2002, a substantial amount was raised on international markets, in addition to the Hong Kong market. However, since the shares issued are registered with HKEx, the amount of funds raised on international markets has also been included in the amount reported by HKEx.

Out of the total amount of HK\$313.3 bn that has been raised,

- 37.2% or HK\$116.6 bn of the funds was raised *directly* in Hong Kong; and
- 62.8% or HK\$196.7 bn of the funds was raised on international markets *indirectly* through Hong Kong.

IPOs Which Raised Funds Internationally Were Larger In Size

The 431 IPOs can further be categorized into:

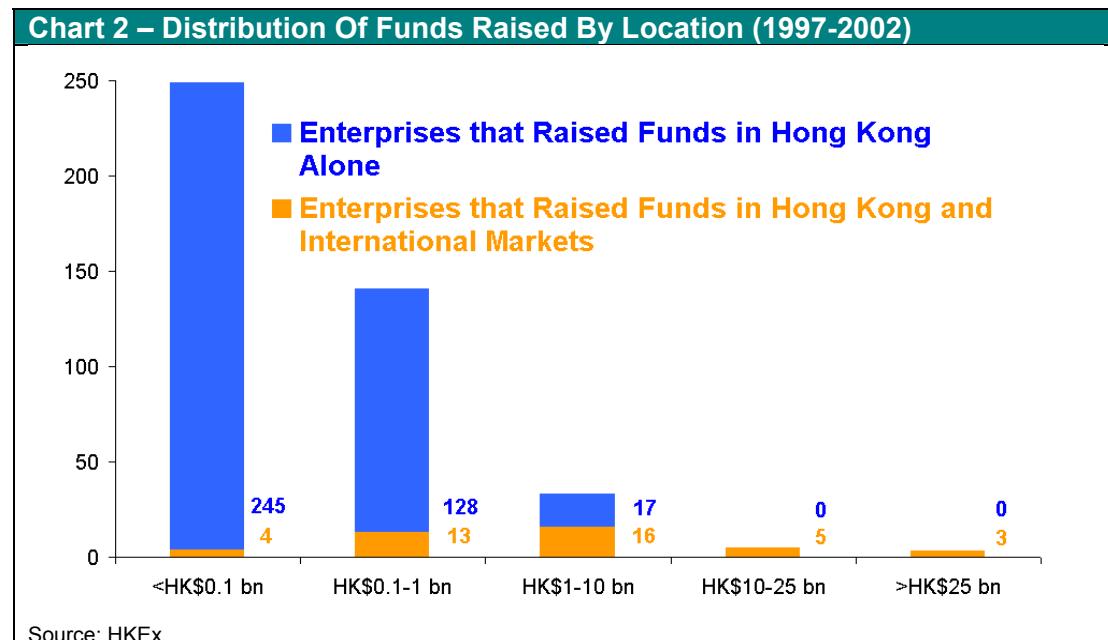
- 41 IPOs offered in Hong Kong and international markets, raising a total of HK\$224.5 bn; and
- 390 IPOs offered in Hong Kong alone, raising a total of HK\$88.8 bn.

For the 41 IPOs which raised funds in Hong Kong and international markets, the average amount of funds raised was HK\$5.5 bn, as compared to the overall average of HK\$0.73 bn.

- 24 IPOs were above HK\$1 bn. Of these, 8 were in excess of HK\$10 bn.
- The remaining 17 IPOs were less than HK\$1 bn.

In contrast, for the 390 IPOs which raised funds in Hong Kong alone, the average amount of funds raised was HK\$0.23 bn.

- Only 17 IPOs were above HK\$1 bn and none was in excess of HK\$10 bn.
- The remaining 373 IPOs were less than HK\$1 bn.



IPO Activities Of Mainland Enterprises In Hong Kong

Mainland Enterprises Accounted For A Large Share Of Funds Raised Through IPOs

Of the HK\$313.3 bn raised by the 431 IPOs during 1997-2002, HK\$232.8 bn (74.3% of the total) was raised for 73 Mainland enterprises. Of this,

- HK\$113.9 bn was raised for 50 H-shares⁷; and
- HK\$118.9 bn for 23 Red-chips⁸.

In other words, the remaining HK\$80.5 bn was raised by 358 non-Mainland enterprises.

Mainland Enterprises Raised Larger Amount Of Funds Through IPOs

On average, a Mainland enterprise raised HK\$3.2 bn, compared to the overall average of HK\$0.73 bn. Of the 73 Mainland enterprises (Chart 3),

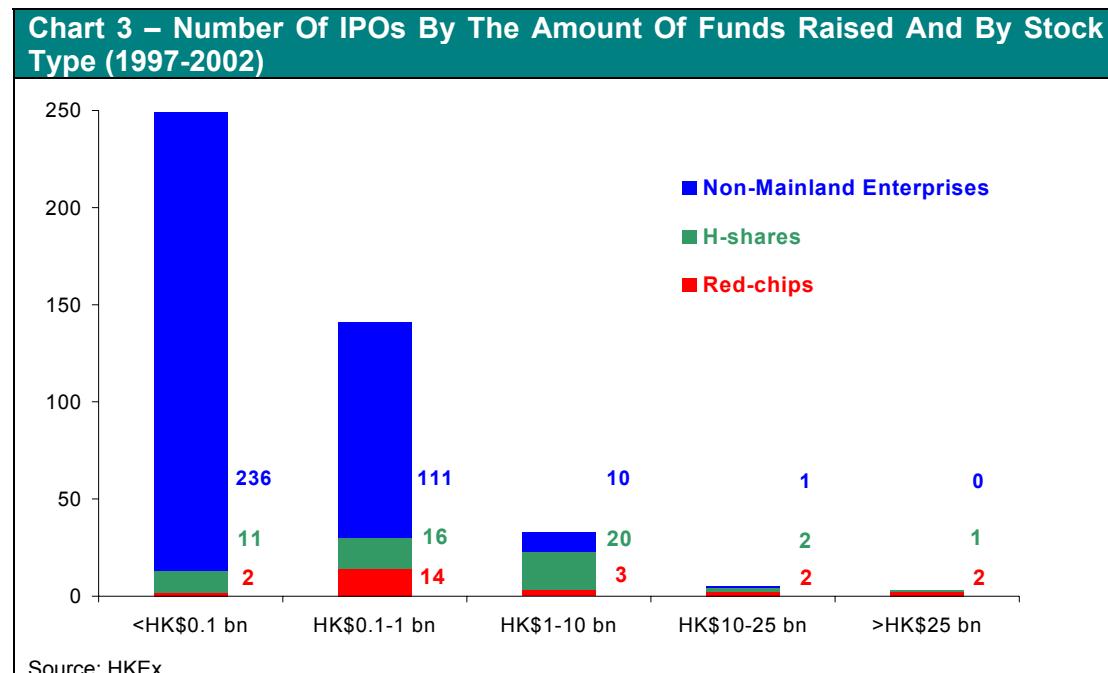
- 13 companies raised less than HK\$0.1 bn;
- 30 raised between HK\$0.1 bn and HK\$1 bn;
- 23 raised between HK\$1 bn and HK\$10 bn;
- four raised between HK\$10 bn and HK\$25 bn; and
- three raised above HK\$25 bn.

In contrast, a non-Mainland enterprise raised an average amount of HK\$0.22 bn. Most non-Mainland enterprises raised less than HK\$0.1 bn. Of the 358 non-Mainland enterprises,

- 236 raised less than HK\$0.1 bn;
- 111 raised between HK\$0.1 bn and HK\$1 bn;
- 10 raised between HK\$1 bn and HK\$10 bn;
- one raised between HK\$10 bn and HK\$25 bn; and
- none raised more than HK\$25 bn.

⁷ There was a total of 51 H-shares but only 50 of them were offered to public, as one was listed by introduction.

⁸ A total of 32 Red-chips were listed during 1997-2002. Eight of them were listed by back door listing. One was not deemed Red-chip at time of being listed in Sep 1997.



FEATURE BOX – PROFILE OF THE TOP TEN IPOS DURING 1997-2002

The top ten IPOs during 1997-2002 all raised funds in Hong Kong and international markets (Table 1). Of the total amount of HK\$188.6 bn that raised,

- HK\$21.2 bn (11.2%) was from Hong Kong; and
- HK\$167.5 bn (88.8 %) was from international markets.

Among them, eight were for Mainland enterprises and only two were for non-Mainland enterprises.

These illustrate that large IPOs in Hong Kong

- usually raise funds in Hong Kong and international markets, with the latter accounting for a larger proportion; and
- are mainly Mainland enterprises.

Table 1 – Share Of Funds Raised In Hong Kong vs International Markets By Top Ten IPOs (1997-2002, HK\$ mn)

Stock	Stock Name	Listing Date	Funds Raised			%	
			Hong Kong	International	Total	Hong Kong	International
762	China Unicom	22-Jun-00	1,896	41,712	43,608	4.3%	95.7%
941	China Mobile	23-Oct-97	2,944	29,721	32,665	9.0%	91.0%
386	Sinopec	19-Oct-00	1,334	25,347	26,681	5.0%	95.0%
857	PetroChina	07-Apr-00	1,116	21,213	22,330	5.0%	95.0%
2388	BOC Hong Kong	25-Jul-02	6,496	14,020	20,516	31.7%	68.3%
728	China Telecom	15-Nov-02	555	10,553	11,108	5.0%	95.0%
883	CNOOC	28-Feb-01	489	10,558	11,047	4.4%	95.6%
66	MTR	05-Oct-00	5,628	5,159	10,787	52.2%	47.8%
1055	China South Air	31-Jul-97	334	5,240	5,574	6.0%	94.0%
1097	i-Cable Comm	24-Nov-99	374	3,927	4,301	8.7%	91.3%
Total of Top Ten:			21,166	167,451	188,617	11.2%	88.8%

Source: HKEx

Hong Kong Appears To Be A Preferred Place For Overseas Listings For Mainland Enterprises

Hong Kong is an important fund-raising centre and a preferred place for overseas listings for Mainland enterprises. As at the end of 2002, Mainland enterprises had a total of 76 overseas listings. Of these,

- 74 were listed in Hong Kong
 - 60 were only listed in Hong Kong;
 - 11 were listed both in Hong Kong and US;
 - two were listed both in Hong Kong and UK; and
 - one was listed in Hong Kong, US and UK.
- Only two were listed outside Hong Kong:
 - one in US; and
 - one in Singapore.

This shows that Hong Kong is an important fund-raising centre and a preferred place for overseas listings for Mainland enterprises, as it offers:

- access to foreign exchange;
- a broader investor base;
- international visibility;
- a sound legal and regulatory framework that is of international standard;
- a deep market with a wide product range and liquidity provided by institutional and retail as well as local and overseas investors;
- a critical mass of professionals and service-providers that adopt practices at international standard; and
- access to the rest of the world whilst benefiting from proximity to the Mainland.

Appendix 1

Definitions Of Various Fund-Raising Methods

Equity securities may raise funds on HKEx by Initial Public Offerings (IPOs) and post-IPO methods. Following the methodology of HKEx, these methods are categorised into:

- Initial Public Offerings (IPOs)
 - *Offer for Subscription* – an offer to the public by or on behalf of an issuer of its own securities for subscription;
 - *Offer for Sale* – an offer to the public by or on behalf of the holders or allottees of securities already in issue or agreed to be subscribed;
 - *Offer for Placing* – the obtaining of subscriptions for or the sale of securities by an issuer or intermediary primarily from or to persons selected or approved by the issuer or intermediary; and
 - *Introduction* – an application for listing of securities already in issue where no marketing arrangements are required because the securities for which listing is sought are already of such an amount and so widely held that their adequate marketability when listed can be assumed.
- Placing
 - *Post-IPO Placing* – the obtaining of subscriptions for or the sale of securities by an issuer or intermediary primarily from or to persons selected or approved by the issuer or intermediary.
- Rights
 - *Rights Issue* – an offer by way of rights to existing holders of securities which enables those holders to subscribe securities in proportion to their existing holdings; and
 - *Open Offer* – an offer to existing holders of securities to subscribe securities, whether or not in proportion to their existing holdings.
- Others
 - *Consideration Issue* – an issue of securities as consideration in a transaction or in connection with a takeover or merger or the division of an issuer; and
 - *Other methods* – an exercise of options, warrants or similar rights to subscribe or purchase securities; an issue of securities on exercise of options granted to or for the benefit of executives and/or employees and such other methods as HKEx may from time approve.