



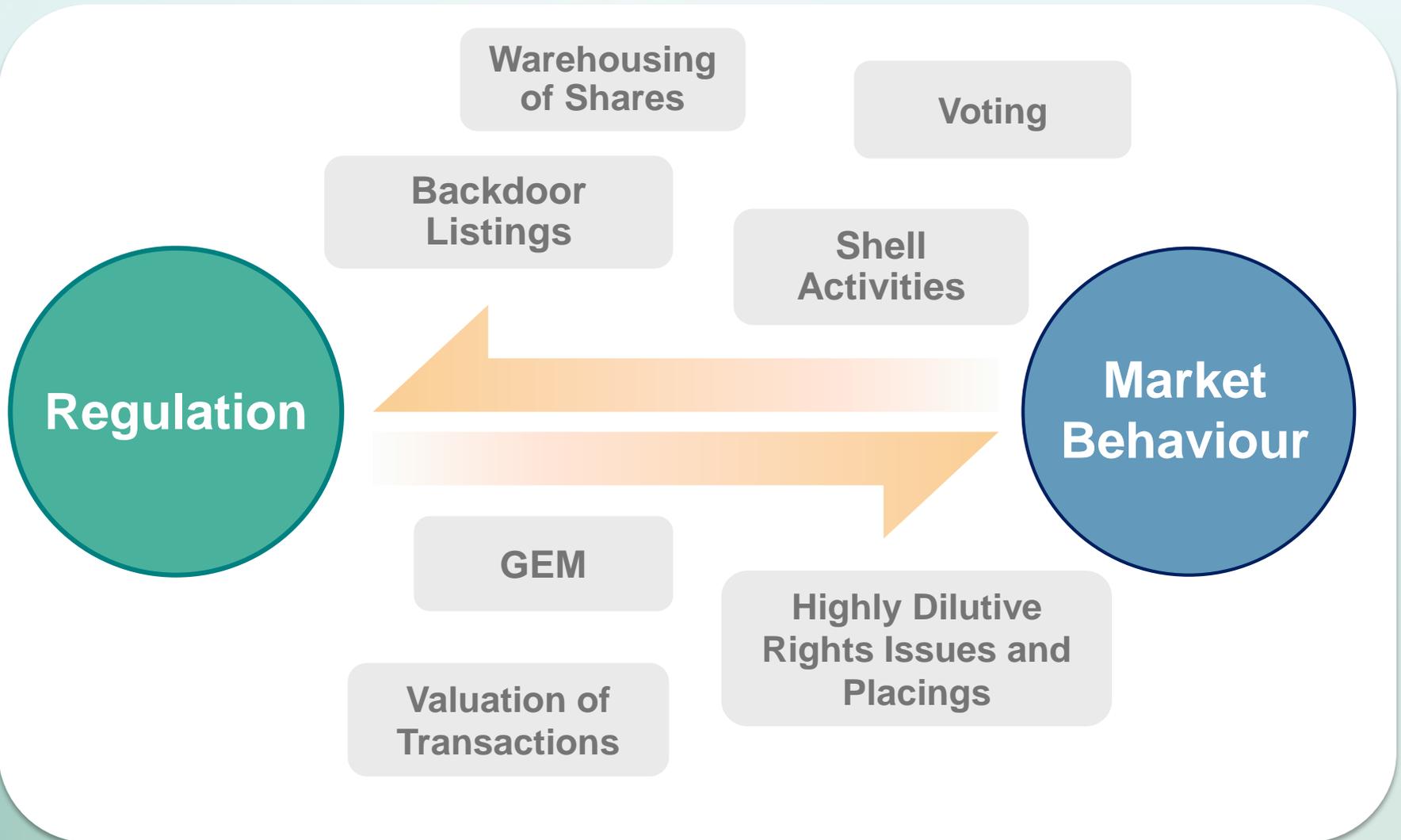
SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

SFC Regulatory Forum 2018

Panel 3 - Corporate Conduct: The Role of Regulation in Changing Behaviour

14 March 2018

Regulation and market behaviour



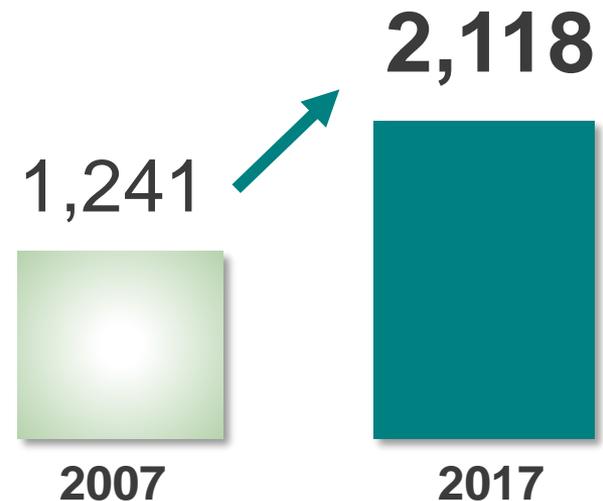
Hong Kong market over past 10 years

Market Capitalisation



↑ 64%
*increase in
market capitalisation*

No. of Listed Companies



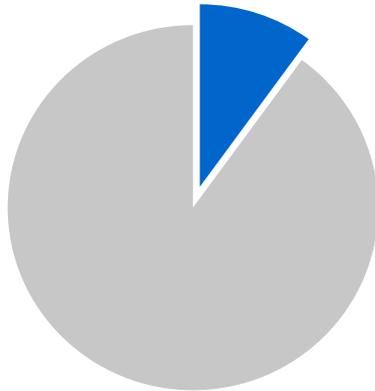
↑ 71%
*increase in
number of listed companies*

Note: The proportion of GEM listings and small cap listings increased substantially between 2007 and 2017. About half of the IPOs in 2017 had an offer size of less than HKD100M (2007: 1), and also about half of the IPOs are GEM listings (2007: 2).

Growth profile of newly-listed companies

2007

Decreasing Earnings



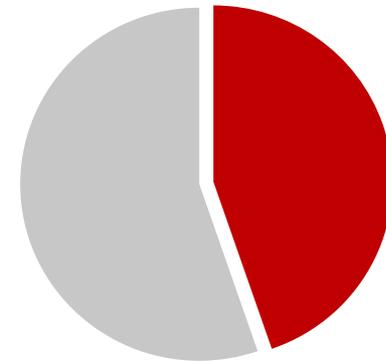
10%

*of newly-listed companies
with decreasing earnings
right before listing¹*

VS

2017

Decreasing Earnings



45%

*of newly-listed companies
with decreasing earnings
right before listing¹*

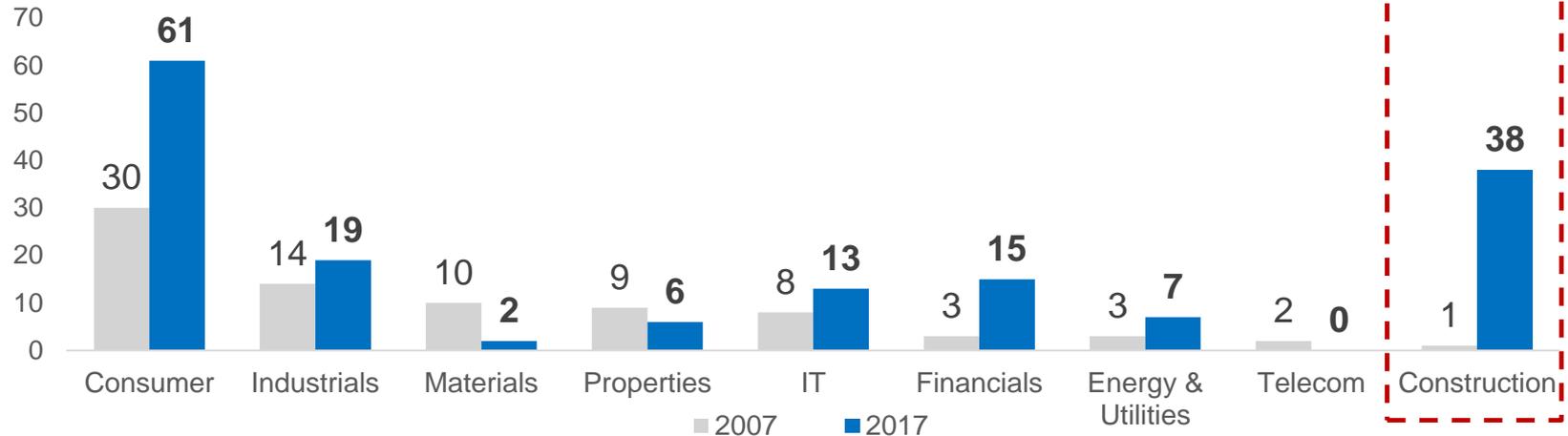
¹ based on the earnings growth for the financial year immediately prior to the listing date of the companies listed in 2007 and 2017, respectively

Source: SFC analysis

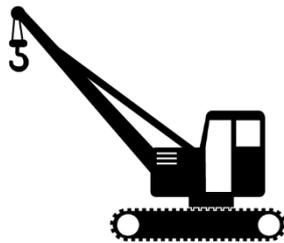


Construction sector – a major source of IPO

Number of New Listings by Sector (2007 vs 2017)



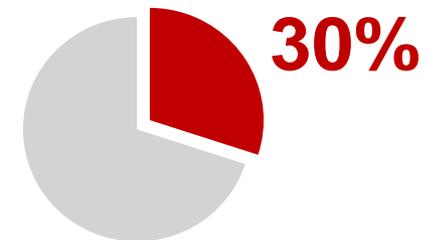
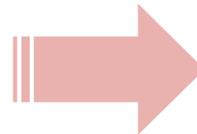
Construction Companies Listed in 2013 - 2016



61 new listings

were construction companies
(2013 - 2016)

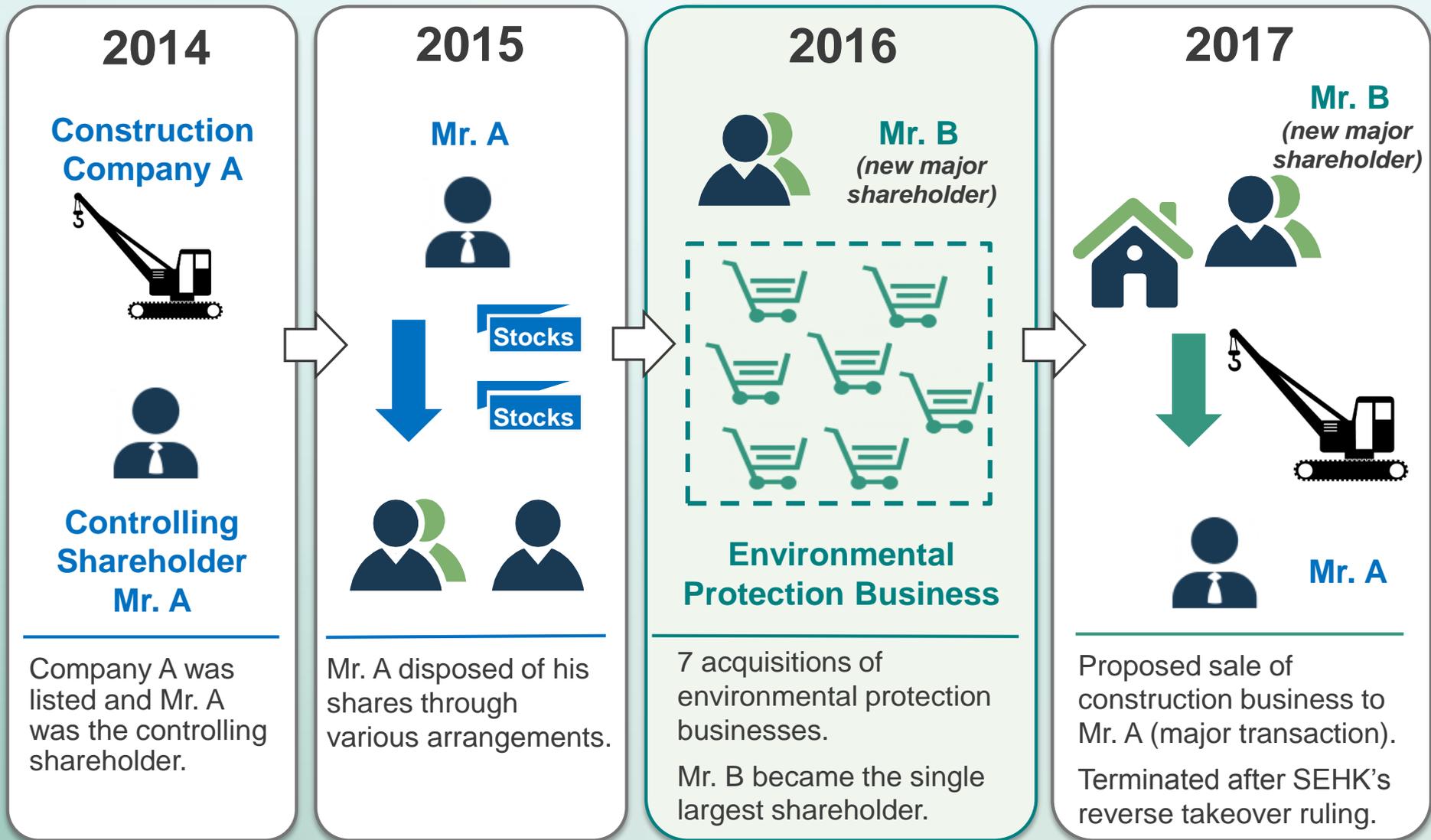
subsequent change
in ownership



with subsequent change in control
/ single largest shareholder
(as at 31 Dec 2017)

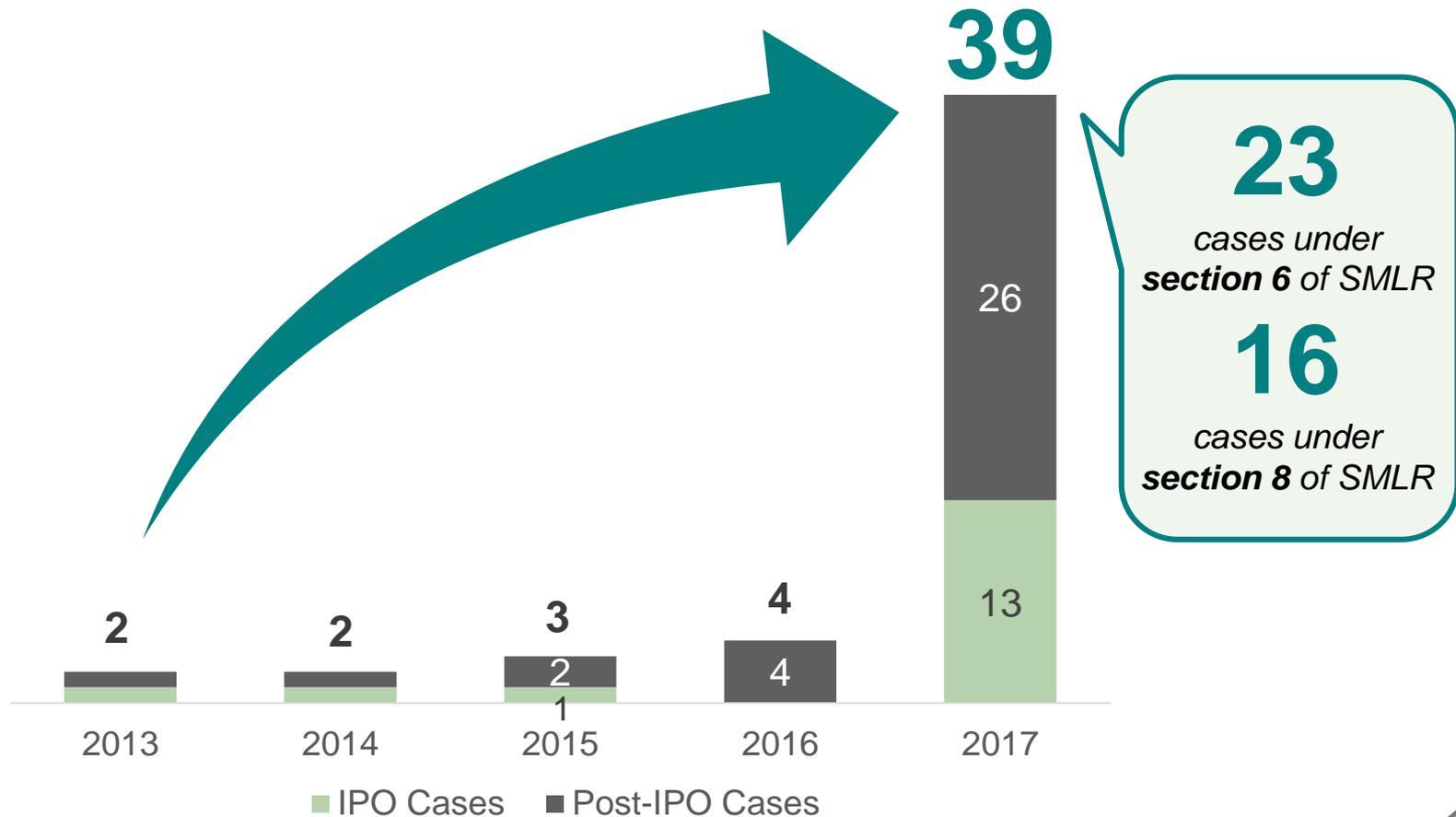


Backdoor listing – observed behaviour



“Front-loaded” regulation

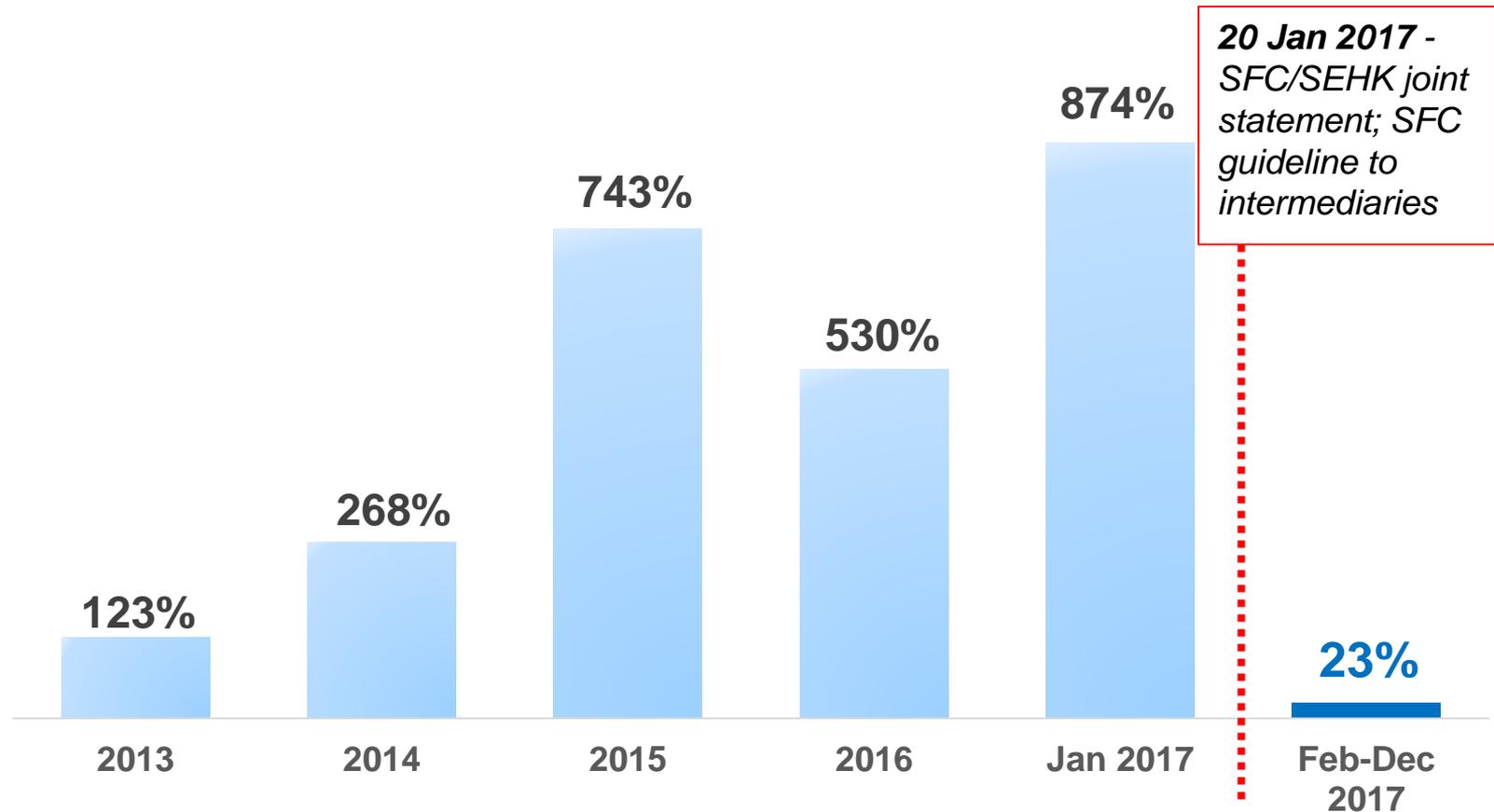
Cases involving use of SMLR powers¹



¹ Cases involving potential/actual use of the powers under the Securities and Futures (Stock Market Listing) Rules
Source: SFC analysis

Initial impact of front-loaded approach on GEM listings

Average First Day Price Change of GEM Listings



Source: SFC analysis

Highly dilutive rights issues / warehousing of shares – observed behaviour

Company B

No urgent funding need



2 Rights Issues (RI) within 1 year

- Highly dilutive
- Significantly undersubscribed
- Unsubscribed shares taken up by purported “independent third parties” (“I3Ps”)

1st RI



2nd RI



Current Status

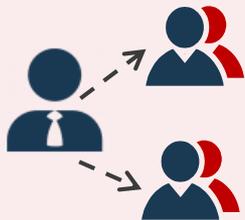
Suspended
under s.8 of SMLR



1st RI

2nd RI

Before



Voting



After



Unsubscribed
Shares

Voting



connected



Chairman sold shares to several I3Ps, who voted for the 1st RI

Several I3Ps acquired unsubscribed shares & voted for the 2nd RI

Regulation and market behaviour

