

Hong Kong Consolidates its Role as a Fund-raising Platform for the Greater China Region with Increased Listing of Taiwanese Companies

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Summary

1. *Hong Kong has been a preferred centre for IPOs and other fund-raising activities by Mainland companies. In recent years, a growing number of Taiwanese companies have also sought listing in Hong Kong. While Hong Kong provides sound regulatory environment, international visibility, and a broad institutional and international investor base, specific technical reasons such as investment restrictions have contributed to the number of Taiwanese listings in Hong Kong. The listing of more Taiwanese companies in Hong Kong has helped consolidate its role as a fund-raising ground for companies in the Greater China region.*
2. *Companies listed in Hong Kong benefit from its international exposure, and understanding of and strong linkage with the Mainland. Hong Kong can capitalize on these advantages to strengthen its position by continuing to attract more listings of Taiwanese and overseas companies, particularly those which target Mainland markets or have Mainland operations. Over time, a critical mass of overseas companies with a Mainland element can be built up in Hong Kong thus enhancing its role as an international financial centre.*

Background and objective

3. The growth of Hong Kong as an IPO fund-raising centre in recent years has been driven by listings of Mainland companies. More than 60% of new listings in Hong Kong during January 2007 – March 2008 were of Mainland companies², and they accounted for more than 80% of IPO funds raised. In the interest of the long-term development of the Hong Kong stock market, it is important to broaden the diversity of companies listed in Hong Kong.

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² Mainland companies include H-shares, red chips and Minying companies (i.e., privately-owned Mainland companies).

4. In recent years, apart from Mainland companies, Taiwanese companies have also increasingly sought to list on the Hong Kong stock market. As of the end of March 2008, 54 Taiwanese companies were listed in Hong Kong. During January 2007 – March 2008, there were 10 IPOs of Taiwanese companies. They raised a total of HK\$20.6 billion. With a significant number of listings of Mainland and Taiwanese companies, Hong Kong has become a prominent fund-raising platform for companies in the Greater China region.
5. This study discusses the trend of Taiwanese listings in Hong Kong and Hong Kong's advantages as a listing destination for Taiwanese companies. The study also considers how Hong Kong could capitalise on these trends and advantages in the years to come.

Methodology

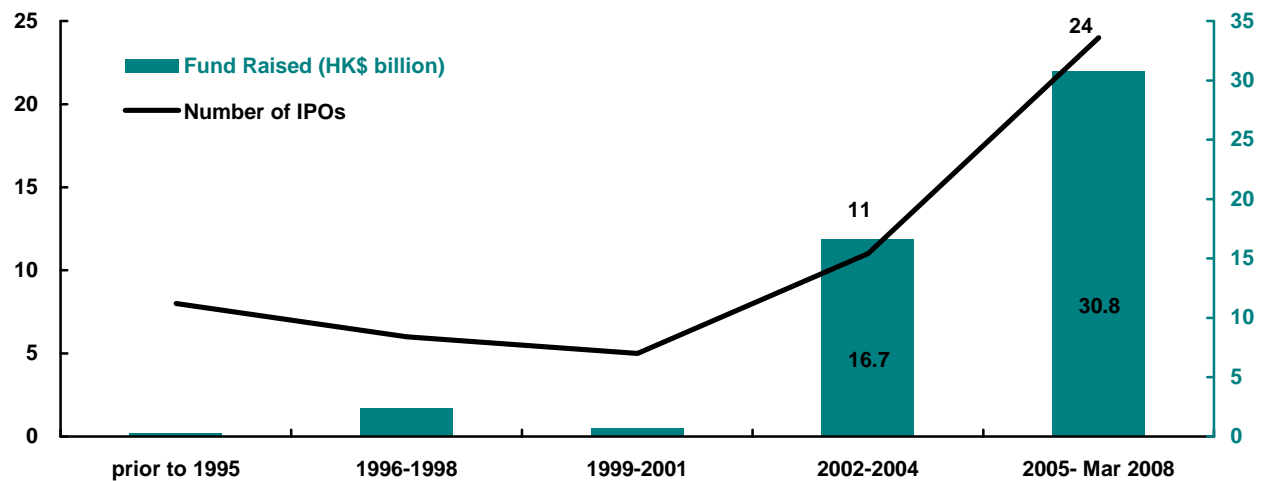
6. In addition to conducting research based on information from relevant websites and the media, we collected views from HKEx and market participants, including some Taiwanese brokers, about the recent trends and factors contributing to the listing of Taiwanese companies in Hong Kong.
7. For the purposes of this study, we classify a Hong Kong-listed company as a Taiwanese company if Taiwanese people or enterprises make up a significant portion of its share ownership, directorship or management. A similar approach has been adopted by market participants for selecting constituents for indices tracking the performance of Taiwanese companies listed in Hong Kong. Companies meeting the criteria, whether incorporated in Taiwan or not, are classified as Taiwanese companies listed in Hong Kong. As for the 54 Taiwanese companies listed in Hong Kong as of the end of March 2008, 39 are incorporated in Cayman Island, 14 in Bermuda and one in Hong Kong.

Trend of Taiwanese listings in Hong Kong

8. There were 24 new Taiwanese listings in Hong Kong in January 2005 – March 2008, more than double compared to 11 during the period 2002 – 2004.³ The amount of funds raised increased to HK\$30.8 billion from HK\$16.7 billion in the respective periods. During January 2007-March 2008, there were 10 IPOs of Taiwanese companies. They raised a total of HK\$20.6 billion. This represented 6.3% of the total funds raised through IPOs in the Hong Kong stock market and 39.8% of funds raised by non-Mainland IPOs in Hong Kong during the period.

³ Of the 24 newly listed Taiwanese companies in Hong Kong, 23 are incorporated in Cayman Island and one in Bermuda.

IPO Activities of Taiwan companies in Hong Kong



Sources: HKEx and SFC Research

9. Hong Kong has been the preferred market for Taiwanese companies seeking an overseas listing. In the Commonwealth Magazine's 2007 Survey of CEOs of Taiwan's Top 1,000 Enterprises, 25.7% of CEOs revealed that they were considering raising capital overseas or listing their companies on overseas stock exchanges. Of these, around 52% preferred to be listed in Hong Kong, while around 23% preferred to list in the Mainland, 9% in the US and 5% in Singapore.
10. Taiwanese companies' preference for an overseas listing in Hong Kong is further confirmed by the fact that as of the end of March 2008, 54 Taiwanese companies were listed in Hong Kong. It was about twice the total number of Taiwanese listings in Singapore, London and New York.⁴

Factors contributing to the listing of Taiwan companies in Hong Kong

Sizable market with high valuation

11. Based on our discussion with market participants, Hong Kong appears to compare favourably in some aspects with some other listing venues for Taiwanese companies, including Taiwan, Shanghai and Singapore. The Hong Kong stock market outperformed both Taiwan and Singapore in terms of returns, IPO funds raised, turnover and market capitalisation (See table below). Although the Shanghai Stock Exchange performed better than Hong Kong in some aspects, restrictions of fund flows and market participants' uncertainties about regulations have possibly discouraged the listing of Taiwanese companies there.

⁴ Figures for different stock exchanges may not be comparable due to different definitions of Taiwanese companies.

Comparison of Major Asian Stock Markets as of the end of March 2008

	Hong Kong	Taiwan	Shanghai	Singapore
IPO fund raised in January 2007 – March 2008 (US\$ billion) (<i>Global ranking</i>)	41.6 (4)	0.7 (27)	65.1 (2)	5.7 (15)
Number of listed companies	1,244	712	861	770
Market capitalisation (US\$ billion) (<i>Global ranking</i>)	2,171.5 (7)	715.2 (20)	2,586.3 (6)	486.5 (22)
Turnover (12 months ended March 2008, US\$ billion)	2,345.9	1,078.6	4,320.7	388.4
Performance of benchmark stock index (End-March 2008 over a year ago)	+15.4%	+8.7%	+9.1%	-6.9%
Remark: Turnover excludes trading of derivative warrants.				
Sources: Bloomberg, WFE, Taiwan Stock Exchange and HKEx				

12. Taiwanese companies raised more funds through the Hong Kong stock market last year than through their home market. During January 2007 – March 2008, there were 10 Taiwanese IPOs in Hong Kong, raising a total of HK\$20.6 billion (US\$2.6 billion).⁵ Less than half of that amount was raised through IPOs in the Taiwanese Stock Exchange in the same period.
13. Another motivation for Taiwanese companies to seek listing in Hong Kong is the higher valuation. Some Hong Kong listed Taiwanese companies had higher price-earnings ratios and better performance than their parents or associated companies listed in Taiwan. Some Taiwanese companies were listed in Hong Kong after having delisted from other exchanges in the region. According to news reports, amongst other factors, those Taiwanese companies might wish to seek higher valuation in Hong Kong.

Secondary market funding

14. According to market participants, companies listed in Hong Kong can easily and speedily raise funds in its capital market. Hong Kong provides a deep secondary funding platform in which listed companies can raise capital to fund continuous corporate developments. Some Taiwanese companies have been active in seeking post-IPO funding in Hong Kong.
15. Directors of companies listed in Hong Kong can be granted a general mandate by shareholders in its general meeting to issue new shares of up to 20% of its issued share capital throughout a particular year. This gives companies flexibility to issue new shares at directors' discretion when needed, without being required to seek shareholders' approval before every issuance. Market participants revealed that sizable amount of funds can be raised in Hong Kong by various means, such as share placements within 1-2 days. Fund-raising activities can thus be arranged in a timely manner to capture favourable market conditions. This is particularly beneficial to companies in urgent need of funds for expansion, restructuring, merger and acquisition. Hong Kong can build on this niche to attract listings by Taiwanese and other overseas companies.

⁵ This covers IPOs with funds raised, excluding introduction and change of board.

Gateway to the Mainland market

16. Under current regulations, companies listed in Taiwan are not allowed to invest more than 40% of their net assets in the Mainland. According to market participants, some Taiwanese companies have therefore chosen to delist from the Taiwanese stock market or list their Mainland subsidiaries on overseas stock exchanges.
17. Given its proximity and understanding about the Mainland, Hong Kong is an ideal venue for companies that target Mainland markets or have Mainland operations. Such companies can raise funds in Hong Kong to finance expansion of their Mainland businesses.

Demonstration effect of large and successful IPOs

18. The larger Taiwanese IPOs in Hong Kong have attracted strong and continued investor interest. Some Taiwanese companies listed in Hong Kong saw their share prices and market capitalisations increase rapidly and faster than that of their parents in Taiwan. Their successes led to more Taiwanese listings in Hong Kong. Hong Kong can capitalise on this to further attract overseas companies (both Taiwanese and others) to list on its stock market.

Broad investor base and sophisticated market infrastructure

19. Hong Kong provides a diversified investor base for listed companies. In 2007, institutional investors accounted for some 60% of the total market turnover, compared to some 30% in Taiwan in 2007.⁶ Hong Kong is also a globalised market with a large pool of overseas investors.
20. Hong Kong adopts international market rules and regulations, disclosure requirements, corporate governance practices and accounting standards. Hong Kong regulations are clear to companies to be listed, either from Taiwan or other jurisdictions. Hong Kong-listed companies can easily conduct mergers and acquisition, acquire overseas companies through share swaps and reward staff with stock options through share incentive schemes. There is also a presence of many well-known international investment banks, law firms, accounting firms and other related professional institutions, thus making Hong Kong an attractive service platform for Taiwanese and other overseas companies.

⁶ Taiwan Stock Exchange annual statistical data.

21. The various advantages discussed above are the strengths that Hong Kong can capitalise on to continue attracting overseas companies – both Taiwanese and others – to list on its stock market. On the one hand, Hong Kong is a gateway to the Mainland markets. Given Hong Kong's proximity to and established connection with the Mainland, it can attract more listings of companies from Taiwan and elsewhere that target Mainland markets or have Mainland operations. On the other hand, Hong Kong, with an international and institutional investor base, offers international visibility to companies listed in Hong Kong. Hong Kong also has a sound regulatory regime on a par with international standards, which enables its stock market to attract overseas companies to list there.

Conclusions and Implications

22. The growth of Hong Kong as an IPO fund-raising centre in recent years has been driven by the listing of Mainland companies. It is important to increase the diversity of companies listed in Hong Kong. By encouraging companies from different geographical regions to list on its stock market, Hong Kong can boost IPO activities, broaden its investor base and enhance its status as an international fund-raising centre.
23. In recent years, a growing number of Taiwanese companies have sought listing in Hong Kong, given its advantages including a favourable regulatory environment, international visibility, a broad institutional and international investor base in both the primary and secondary markets, and its ability to serve as an effective gateway to the Mainland market. With more Taiwanese listings, Hong Kong has been able to consolidate its role as a fund-raising ground for companies in the Greater China region.
24. Companies listed in Hong Kong benefit from its international exposure, its good understanding and strong links with the Mainland. Moreover, Mainland-related stocks are popular among Hong Kong investors. Hong Kong can capitalize on this and further strengthen its position by not only continuing to attract more listings of Taiwanese companies, but also listings of other overseas companies that target Mainland markets or have Mainland operations. Over time, a critical mass of overseas companies with a Mainland presence or element will develop in Hong Kong, and thus enhancing its role as an international financial centre.