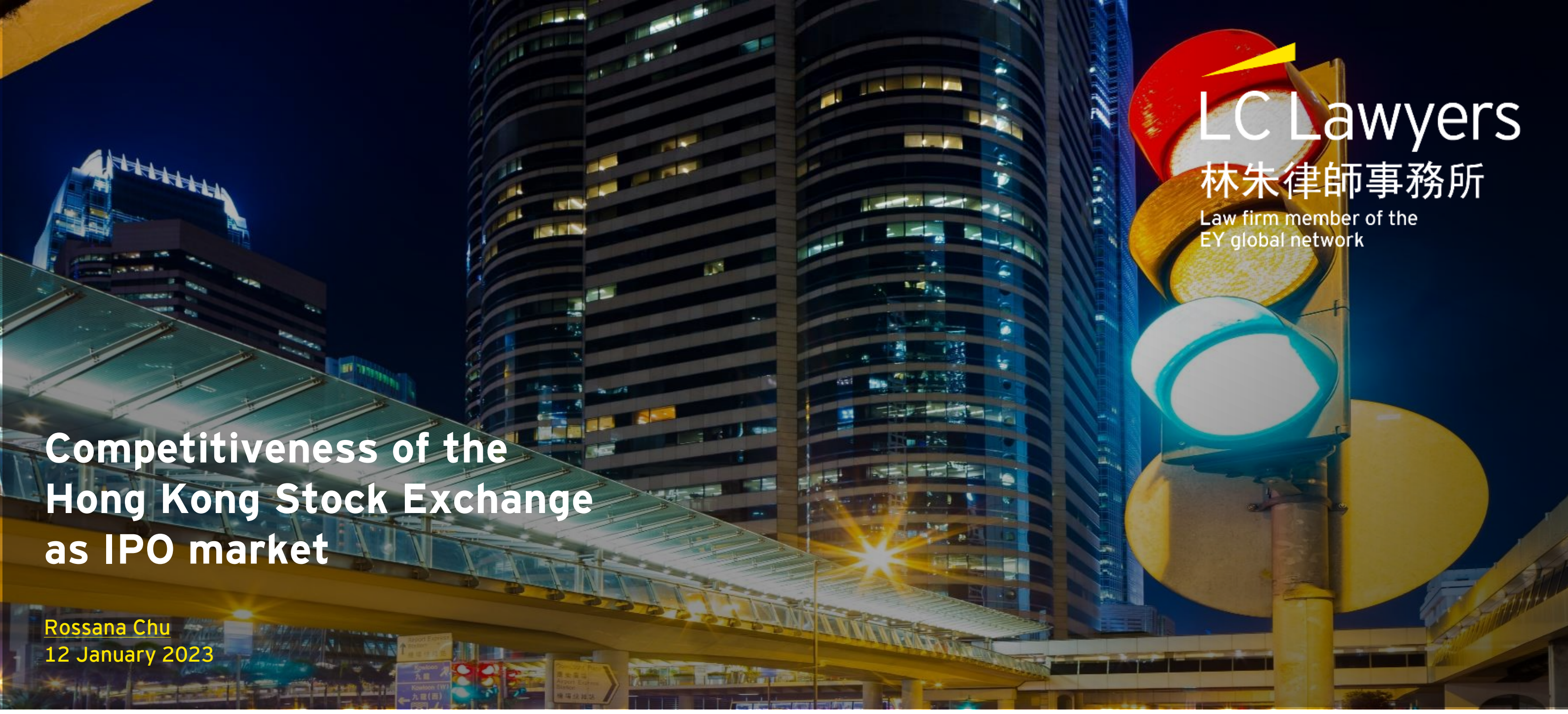

Competitiveness of the Hong Kong Stock Exchange as IPO market

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"Some people resign and return to their hometowns, while others rush to the examination field overnight". This proverb from a 300-year-old Chinese poem perfectly illustrates the phenomenon of the Hong Kong stock market during the past few years.

The Stock Exchange of Hong Kong Limited (HKSE) has been putting a lot of efforts on maintaining the competitiveness of Hong Kong as an attractive international stock market. Yet, there is an increasing number of voluntary listing withdrawals and some of them are of a good size. Also, involuntary delisting is being actively enforced by HKSE.

In Hong Kong, the recent initial public offerings (IPOs) as well as the stock price performance of most listed companies are not up to expectation. Still, there are many ways we may do better to enhance Hong Kong's IPO market.

Hong Kong IPOs vs. delisting

Table 1 summarises the statistics provided by Hong Kong Exchanges and Clearing Limited (HKEx)[1] on IPOs and delisting:[2]

[1] HKSE is a subsidiary of HKEx.

[2] HKSE's reports on Initial Public Offering Applications, Delisting and Suspensions:
Report on Initial Public Offering Applications, Delisting and Suspensions (As at 30 September 2022) (hkex.com.hk)
Report on Initial Public Offering Applications, Delisting and Suspensions (As at 31 December 2021) (hkex.com.hk)
Report on Initial Public Offering Applications, Delisting and Suspensions (As at 31 December 2020) (hkex.com.hk)
Report on Initial Public Offering Applications, Delisting and Suspensions (As at 31 December 2019) (hkex.com.hk)

Table 1	First 9 months of 2022	2021	2020	2019
Number of IPOs[3]	55 • Main Board: 55 • GEM: 0	98 • Main Board: 97 • GEM: 1	154 • Main Board:146 • GEM: 8	183 • Main Board:167 • GEM: 16
Number of withdrawal of listing (by privatisation or otherwise voluntary)	13 • Main Board: 12 • GEM: 1	30 • Main Board: 27 • GEM: 3	26 • Main Board: 24 • GEM: 2	10 • Main Board: 10 • GEM: 0
Number of listings cancelled by HKSE	33 • Main Board: 25 • GEM: 8	34 • Main Board: 21 • GEM: 13	31 • Main Board: 23 • GEM: 8	19 • Main Board: 13 • GEM: 6

Some interesting observations can be drawn from Table 1. IPO numbers decreased continuously from 2019 to 2022. GEM IPOs dropped sharply from 16 in 2019 to 8 in 2020, and further to almost nil in 2021 and 2022. On the other hand, the initiatives in taking listed companies private continued to rise in Hong Kong from 2019 to 2021.

HKSE is also active in taking companies down from the exchange in accordance with the delisting regime under the listing rules. The occasions of listing status cancellation increased from 19 in 2019 to more than 30 in each of 2020, 2021 and 2022. Although GEM listed companies represented a small proportion in IPOs and privatisations, they constituted 30% to 60% of the cases delisted by HKSE.

Hong Kong's position in the international IPO markets

According to EY global IPO research,[4] the positioning of Hong Kong has changed over the past years as summarised in Table 2.

[3] Presentations made by top executives of HKEx:
For 2022 Q3: https://www.hkex.com.hk/-/media/HKEX-Market/News/News-Release/2022/221019news/2210192news/2022-Q3-Results-Announcement-Presentation_e_1019.pdf
For 2021: https://www.hkex.com.hk/-/media/HKEX-Market/News/News-Release/2022/2202243news/2202243news.pdf
For 2020: https://www.hkex.com.hk/-/media/HKEX-Market/News/News-Release/2021/2102243news/2102243news.pdf
For 2019: https://www.hkex.com.hk/-/media/HKEX-Market/News/News-Release/2020/2002263news/2002263news.pdf

[4] https://www.ey.com/en_gl/ipo/trends

Table 2	First 6 months of 2022		2021		2020		2019	
	By no. of IPOs	By proceeds	By no. of IPOs	By proceeds	By no. of IPOs	By proceeds	By no. of IPOs	By proceeds
1st	Shenzhen	Shanghai	NASDAQ	NASDAQ	Shanghai	NASDAQ	**Hong Kong**	**Hong Kong**
2nd	Shanghai	Shenzhen	Shanghai	New York Stock Exchange	NASDAQ	**Hong Kong**	NASDAQ	Saudi
3rd	India	South Korea	Shenzhen	Shanghai	Shenzhen	Shanghai	Shanghai	NASDAQ
4th	NASDAQ	Dubai	Australia	**Hong Kong**	**Hong Kong**	New York Stock Exchange	Tokyo	Shanghai
5th	Tokyo	India	NASDAQ OMX and First North	Shenzhen	Tokyo	Shenzhen	Shenzhen	New York Stock Exchange
Others	**Hong Kong ranks the 10th**	**Hong Kong ranks the 9th**	**Hong Kong ranks the 10th**					

It is fair to conclude that Hong Kong's position as a leading international stock exchange has been declining since 2019. US exchanges remained strong in 2019 to 2021, but were overtaken by Asia exchanges including those in Shanghai and Shenzhen in terms of both deal number and IPO proceeds.

Hong Kong attracted some mega IPOs in recent years, including Alibaba (IPO size of US$13 billion) and Budweiser APAC (US$5.8 billion) in 2019, JD.com (US$4.4 billion), JD Health (US$4 billion) and NetEase (US$3.1 billion) in 2020, and Kuaishou Technology (US$6.2 billion) and JD Logistics (US$3.6 billion) in 2021.[5] The top two IPOs alone constituted substantial proportion of the whole-year IPO proceeds size, as shown in Table 3 below.[2 and 4]

Table 3	2021	2020	2019
IPO proceeds raised by all IPOs in the year	US$42.5 billion	US$51.3 billion	US$40.3 billion
IPO proceeds raised by the top two IPOs	US$9.8 billion	US$8.8 billion	US$18.8 billion
Percentage represented by the top two IPOs	23%	16%	46%

[5] https://www.hkex.com.hk/-/media/HKEX-Market/News/News-Release/2022/2202243news/2202243news.pdf

Hong Kong listing applications

Statistics

In respect of listing applications, HKSE's statistics are summed up in Table 4:[2]

Table 4	First 9 months of 2022	2021	2020	2019
New listings				
Number of IPOs	55 • Main Board: 55 • GEM: 0	98 • Main Board: 97 • GEM: 1	154 • Main Board:146 • GEM: 8	183 • Main Board:167 • GEM: 16
New vs. renewed listing applications				
Number of new applications accepted by HKSE during the relevant period[6]	153 • Main Board:150 • GEM: 3	316 • Main Board:304 • GEM: 12	231 • Main Board:216 • GEM: 15	300 • Main Board:255 • GEM: 45
Number of renewals of applications accepted by HKSE within three months from lapsed, rejected or withdrawn applications made by the same applicants	130 • Main Board:124 • GEM: 6	140 • Main Board:127 • GEM: 13	166 • Main Board:142 • GEM: 24	218 • Main Board:170 • GEM: 48

[6] The numbers of new listings exclude listings of investment vehicles such as Exchange Traded Funds, Real Estate Investment Trusts, collective investment schemes and investment companies, and also exclude transfers of listing from GEM to the Main Board.

Table 4	First 9 months of 2022	2021	2020	2019
Status of listing applications				
Number of active applications under HKSE's processing as at the end of the relevant period	114 • Main Board:107 • GEM: 7	131 • Main Board:123 • GEM: 8	92 • Main Board: 81 • GEM: 11	126 • Main Board:100 • GEM: 26
Number of lapsed, and withdrawn applications during the relevant period	219 • Main Board:209 • GEM: 10	286 • Main Board:257 • GEM: 29	265 • Main Board:218 • GEM: 47	366 • Main Board:285 • GEM: 81

From Table 4 above, few remarkable phenomenon can be observed. The combined count of new and renewal applications in each year far exceeds the IPO number of the subsequent year. That essentially means more than half of the applications were unsuccessful. This is also confirmed by the high volume of lapsed, rejected, returned and withdrawn applications in each year – failed cases are much more than active applications in any of the periods captured in Table 4.

In Hong Kong, a listing application has a validity period of 6 months, i.e. it will expire if the applicant is not listed within 6 months. In such a case, if the applicant does not let the application lapse and prefers to keep the case alive, it has to renew its application. Renewals can be made for more than one time. The relatively high number of renewals suggests that many applications cannot be cleared within 6 months.

Unsuccessful listing applications

Let us take a closer look at the reasons of unsuccessful listing applications from the official information provided by HKEx in Table 5.

Table 5	First 9 months of 2022	2021	2020	2019
Lapsed, but approval-in-principle granted but not listed prior to the lapse	54 • Main Board: 54 • GEM: 0	44 • Main Board: 44 • GEM: 0	48 • Main Board: 46 • GEM: 2	74 • Main Board: 68 • GEM: 6
Lapsed, but no approval-in-principle	160 • Main Board:151 • GEM: 9	230 • Main Board:204 • GEM: 26	210 • Main Board:165 • GEM: 45	241 • Main Board:184 • GEM: 57
Withdrawn	5 • Main Board: 4 • GEM: 1	9 • Main Board: 6 • GEM: 3	6 • Main Board: 6 • GEM: 0	21 • Main Board: 11 • GEM: 10
Rejected	0 • Main Board:0 • GEM: 0	1 • Main Board:1 • GEM: 0	1 • Main Board:1 • GEM: 0	26 • Main Board:18 • GEM: 8
Returned	0 • Main Board:0 • GEM: 0	2 • Main Board:2 • GEM: 0	0 • Main Board:0 • GEM: 0	4 • Main Board:4 • GEM: 0
Total	219 • Main Board:209 • GEM: 10	286 • Main Board:257 • GEM: 29	265 • Main Board:218 • GEM: 47	366 • Main Board:285 • GEM: 81

Where an approval-in-principle is granted while the listing application lapses, it is usually because the then market sentiment is not positive or the underwriters are unable to secure sufficient orders at the price range acceptable to the applicant. Such type of lapses happen from time to time as the market fluctuates. Thus, the numbers of lapses in that category did not experience any significant change over the years.

The category of “rejected” refers to applications which are not accepted by HKSE for vetting, mostly because they do not fulfil the basic listing qualifications or the application documents requirements. Rejected occasions substantially reduced since 2020 as HKSE provided guidance on circumstances under which applications may be rejected. Such guidance may have helped practitioners in ensuring the applications satisfy the basic criteria.

The category of “returned” refers to applications which are accepted for vetting but are subsequently returned to the applicants on the ground that the information in the listing application proofs or related documents is not substantially complete. The numbers were negligible. This is also attributed to HKSE's efforts in providing guidance on returned cases which allows practitioners to better understand HKSE's expectations on the quality of application documents.

The most significant portion of failed cases were lapsed applications with no approvals-in-principle being granted. They represented 65% to 80% of the unsuccessful applications during 2019 to September 2022. There were more such lapses than IPOs. Those applications were not rejected or returned, and therefore must have fulfilled the basic requirements and also have been vetted by the relevant Hong Kong regulators (i.e. HKSE and the Securities and Futures Commission of Hong Kong (SFC)). Their failures are worth looking into.

Vetting criteria of listing applications

HKSE and SFC have been policing the listing suitability and investment potential of applicants. Each listing application must satisfy the objective listing qualifications which include profit, cash flow or revenue performance, management and ownership continuity, and market capitalisation requirements. Companies engaged in specific sectors (such as biotech and mineral companies) are subject to the industry-related listing criteria.

However, it is not sufficient to satisfy such qualifications. Hong Kong regulators also pay attention to other aspects which are not so explicitly embedded in the listing rules or HKSE guidance. During the vetting process, regulators may inquire in detail the applicant's business model and growth plans. The purpose is probably to protect investors because applicants have to justify their suitability of listing and future sustainability.

The "genuineness" of a listing application is also under spotlight. A few years back, there were cases where the controlling interests in certain listed companies changed hands shortly after IPO and the original businesses were sold by the companies to their exiting shareholders. This casts doubt as to whether the whole IPO was an exercise to facilitate backdoor listing – which is of course not the intention of Hong Kong regulators in permitting listing. Hence, HKSE and SFC are both very concerned about the genuineness of the IPO exercise, especially by the smaller applicants. They may raise questions on the suggested uses of IPO proceeds, or ask why the applicant does not raise bank loans or other types of debt financing but selects to conduct an IPO. For some smaller applications, the sponsors and underwriters may be required to explain the P/E ratios, how they may prove the independence of the IPO placee investors, or how the projected IPO market capitalisation can be justified. The absence of third party pre-IPO investments may also draw inquiries on how the applicant may attract post-IPO investments.

It seems that the Hong Kong regulators have adopted a "merits" basis rather than a "disclosure" basis in vetting listing applications. The intention is good and the purpose is to insulate investors from excessive risks. But this approach may lead to uncertainties, increasing costs and potential delays in the listing application – which is evidenced by the high numbers of application renewals over the last few years. Moreover, in shouldering the policing role, the regulators may encounter challenges. For example, they must ensure that their officers have the necessary commercial expertise to assess the applicants' business models and whether its business operations are acceptable in the relevant industries. To a regulator, evaluating the applicant's business potential or sustainability in this ever-changing economic environment can be extremely difficult.

Regulators' efforts in enforcing the Main Board of the Hong Kong stock exchange

Having said the above, Hong Kong regulators have been opening up new avenues for the IPOs. Nevertheless, it seems that their focus is more on the larger applicants in certified identified industries.

Biotech companies, companies with weighted voting rights and secondary listings of overseas companies

In 2018, HKSE took progressive steps forward towards diversifying the Hong Kong stock market.

Biotech companies are allowed to be listed on the Main Board even if they cannot meet the usual eligibility tests, as long as they satisfy certain specific biotech-related requirements, such as the development and verification of at least one core product of each applicant, research and development, and pre-IPO investments.

Applicants with weighted voting rights (WVR) structures which can demonstrate the necessary characteristics of innovation and growth are also allowed to be listed on the Main Board, not being bound by the usual expectation of "same share same right". This enables the individual founders to retain control if they had been materially responsible for the companies' rapid growth and success even after substantial dilution to their shareholding caused by pre-IPO and IPO fundraising. In view of the risks associated with WVR structures, HKSE applies additional requirements by ringfencing the minimum voting power of non-WVR shareholders and requiring the WVR shareholders to have a minimum economic interest in the company. Furthermore, an applicant with WVR structure must have a minimum market capitalisation threshold of either HK$40 billion (US$5.13 billion) or HK$10 billion (US$1.28 billion) if it has at least HK$1 billion (US$128 million) revenue in its last audited financial year.

HKSE also created a concessionary route to secondary listing for overseas issuers that are listed on a qualifying exchange (i.e. the New York Stock Exchange LLC, Nasdaq Stock Market or the Main Market of the London Stock Exchange plc (and belonging to the UK Financial Conduct Authority's "Premium Listing" segment)). The applicant must have a good regulatory compliance track record on the qualifying exchange where it is primary listed, and have a large expected market capitalisation at the time of secondary listing in Hong Kong.

Since the above-mentioned listing reforms became effective on 30 April 2018, 79 companies have been listed under the new regimes as at 9 September 2022. Their information, extracted from HKEx[7], is set out in Table 6 below:

Table 6	New listings since 30 April 2018		Market capitalisation as of 9 September 2022	Year-to-date trading turnover as of 9 September 2022
	Number	% of total new listings	% of total market	% of total market
Biotech companies (Note)	52	7.1%	1.4%	1.7%
Companies with WVR structures	11	1.5%	6.4%	11.0%
Secondary listings of overseas issuers (Note)	17	2.3%	13.0%	11.0%
Total (Note):	79	10.8%	20.7%	22.3%

Note: One biotech company was listed under the regimes of both biotech companies and secondary listings of overseas issuers. It is counted only once in the "Total" row.

The 2018 efforts have brought about further diversification of companies listed in Hong Kong. In particular, companies with WVR structures and secondary listings of overseas issuers mostly engage in the information technology industry. Although those 37 companies represent a small percentage of Hong Kong's total number of listed companies, their market capitalisation and trading turnover occupy 11% of the total market. This has also aroused the atmosphere of investing in technology companies. The total market capitalisation of companies engaged in the information technology industry (including telecommunication equipment, computers & peripherals, system applications & IT consulting, e-commerce & Internet services, software, and semiconductors subsectors) increased from around 15% of Hong Kong's total market capitalisation prior to 2018 to 30% as of 31 December 2021.

Encouraged by the popularity in the technology sectors, HKSE recently proposed a listing regime for specialist technology companies, as described below.

Increasing profit requirements

From February 2018, the minimal market capitalisation of Main Board listing

[7] HKEx's Consultation Paper on "Listing Regime for Specialist Technology Companies", pages 14 to 15: https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/October-2022-Specialist-Technology-Co/Consultation-Paper/cp202210.pdf

qualification was increased from HK$200 million (US$25.6 million) to HK$500 million (US$64.1 million) while the profit requirement remained unchanged. Where a new applicant only marginally met the profit threshold of HK$20 million (US$2.56 million) for the last financial year in the track record period, its implied historical P/E ratio would be at least 25 times - which was often believed to be too high to be true in most industry segments.

In November 2020, HKSE proposed to substantially increase the IPO profit requirements up to three times of the then profit thresholds. The consultation was put forward when the Hong Kong community and economy were suffering from the adverse effects brought by COVID-19. Such proposal thus met with negative responses and oppositions from 83% of respondents. [8] Eventually, HKSE decided to increase the profit requirements by 60%, i.e. HK$35 million (US$4.49 million) for the last financial year in the track record and HK$45 million (US$5.77 million) for the two preceding years, effective from 1 January 2022.

This effort may have corrected the excessive post-IPO P/E ratio projection, but has excluded the smaller Main Board listing applications.

Special Purpose Acquisition Companies

A "Special Purpose Acquisition Company" or SPAC is a listing vehicle with no substantial business or asset, and its sole purpose is to raise capital through IPO for future acquisition or merger with a target within a certain time period. Upon completion of the acquisition or merger, the SPAC and the target will then be combined, resulting in the listing of a successor company. Such process is referred to as a "De-SPAC transaction".

HKSE adopted Main Board listed rules governing SPAC on 1 January 2022. Only professional investors may subscribe for and conduct post-IPO trading of SPAC shares and warrants. Funds expected to be raised by a SPAC from its IPO must be at least HK$1 billion (US$128 million).

A De-SPAC transaction must be approved by SPAC shareholders at a general meeting. A SPAC must complete a De-SPAC transaction within 36 months of its listing but may request an extension by up to 6 months with shareholders' approval. SPAC shareholders must be given the option to redeem their shares prior to a general meeting to approve a De-SPAC transaction or the extension of the deadlines.

The target of a De-SPAC transaction must meet all new listing requirements (including IPO sponsor appointment, due diligence requirements, financial eligibility tests and minimum market capitalisation requirements). HKSE will also treat each listing application of a successor company in the same way as a deemed new listing.

As of 21 November 2022, the new regime attracted 4 listings of SPACs.

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[8] HKSE's Consultation Conclusion on "The Main Board Profit Requirement" published in May 2021, page 2: https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/November-2020-MB-Profit-Requirement/Conclusions-(May-2021)/cp202011cc.pdf

Proposed new listing regime for specialist technology companies

In October 2022, HKSE seeks public views on its proposed listing regime for "Specialist Technology Companies" which are companies engaging in (a) next-generation information technology, (b) advanced hardware, (c) advanced materials, (d) new energy and environmental protection and (e) new food and agriculture technologies, even if they cannot satisfy the usual profits, revenue and cash flow criteria tests.[9] HKSE may update acceptable sectors from time to time for Main Board listing.

There will be two types of Specialist Technology Companies, namely, "Commercial Companies" meaning those that have commercialised their technology products with a revenue of at least HK$250 million (i.e., US$32 million) for the most recent audited financial year, and "Pre-Commercial Companies" meaning those which have not met such revenue threshold.

No profit or cash flow requirements apply to either type, but each Specialist Technology Company must have at least three financial years of operation under substantially the same management prior to listing. The minimum market capitalisation of a Commercial Company and a Pre-Commercial Company is proposed to be HK$8 billion (i.e., US$1.03 billion) and HK$15 billion (i.e., US$1.92 billion), respectively. There are also additional requirements on research & development expenditure, independent pre-IPO investments, listing document disclosures as well as post-IPO lock-up periods for founders, beneficiaries of WVR, executive directors, senior management and key personnel responsible for technical operations and/or the research & development.

The proposed Hong Kong market capitalisation requirements of a listing applicant (before profits and cash flow) are higher than those for the Shanghai Stock Exchange Science and Technology Innovation Board (STAR Market), and are also above the criteria for the New York Stock Exchange, the NASDAQ Global Select Market, the Singapore Main Board and the London Stock Exchange.[10]

Since its establishment in July 2019, the STAR Market has attracted listings of 487 companies as at 21 November 2022, out of which only 14 companies have a market capitalisation of over US$1.03 billion which is the proposed threshold for a Commercial Company to be listed on the Main Board of Hong Kong.[11]

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[9] HKEx's Consultation Paper on "Listing Regime for Specialist Technology Companies": https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/October-2022-Specialist-Technology-Co/Consultation-Paper/cp202210.pdf

[10] HKEx's Consultation Paper on "Listing Regime for Specialist Technology Companies" - Paragraph 61 and Appendix II: https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/October-2022-Specialist-Technology-Co/Consultation-Paper/cp202210.pdf

[11] http://english.sse.com.cn/markets/equities/data/

Privatisation of Hong Kong listed companies

Privatisations used to be very rare before 2019. There were 10, 26, 30 and 13 companies which were successfully privatised or the listing status was otherwise voluntarily withdrawn in 2019, 2020, 2021 and the first 9 months of 2022, respectively, while the IPOs numbers during those periods were 183, 154, 98 and 55, respectively.

The increase in privatisations in recent years is not a positive sign. The voluntarily delisted companies were of different sizes and engaged in different industry segments. One common reason for giving up the Hong Kong listing status is that the market capitalisation and share prices do not reflect the value or potential of the company. In some cases, the market capitalisation was even much lower than the net asset value of the company. It is believed that some of them may apply for new listing in a stock market in Mainland China.

Having said that, certain privatised companies were of substantial size. Taking 2021 alone, eight delisted companies out of the total of 30 have a market capitalisation of over US$1 billion (calculated on the basis of the privatisation offer price). It is a pity that privatisations are on the rise in recent years along with the departure of good or larger companies from the Hong Kong stock exchange.

Involuntary delisting

Before August 2018, the listing rules merely set out the general principle that the continuation of a suspension for a "prolonged period" without the company taking "adequate action" to obtain restoration of listing may lead to cancellation of listing. However, there were no specific rules on what "prolonged period" or "adequate action" meant.

HKSE adopted a revised delisting regime in August 2018. In respect of the Main Board, HKSE may delist a company which fails to resolve the issues that cause its suspension within 18 months. Such period allows the time for the suspended company to propose a resumption plan and for HKSE to consider the plan and the implementation feasibility. The prescribed 18-month period may be extended in exceptional circumstances. For GEM Board, HKSE may delist a GEM listed issuer after 12 months of continuous suspension.

Table 1 shows the increasing numbers of companies being delisted by HKSE, being 19, 31, 34 and 33 in 2019, 2020, 2021 and the first 9 months of 2022, respectively. This may be explained by HKSE's determination to strengthen the enforcement of the revised delisting regime. As at 30 October 2022, there were 102 Main Board companies and 13 GEM listed companies under prolonged suspension.[12] Thus, more companies may be delisted in the last quarter of 2022 and 2023.

[12] Monthly Prolonged Suspension Status Report (Main Board) (as at 31 October 2022): https://www2.hkexnews.hk/-/media/HKEXnews/Homepage/Exchange-Reports/Prolonged-Suspension-Status-Report/psuspenrep_mb.pdf
Monthly Prolonged Suspension Status Report (GEM Board) (as at 31 October 2022): https://www2.hkexnews.hk/-/media/HKEXnews/Homepage/Exchange-Reports/Prolonged-Suspension-Status-Report/psuspenrep_gem.pdf

Second or junior markets

Nowadays, there is a wide diversity of enterprises seeking listings on international bourses, and they vary in sizes, industries, development stages and target investors. Therefore, almost all countries with developed capital markets provide different boards to match the different circumstances of enterprises and the diverse needs of investors.

Junior markets in Asia include Shenzhen ChiNext, Hong Kong GEM Board, India's Bombay SME and National SME, Malaysia ACE Market, Japan Tokyo Stock Exchange (Standard Market and Growth Market), Korea KOSDAQ, Thailand's Market for Alternative Investment and Singapore Catalist. Toronto Venture Exchange and Canadian National Stock Exchange are the junior markets in America. Europe has Alternext, London Alternative Investment Market, Germany's Frankfurt SCALE (formerly Entry Standard), Spain's Mercado Alternativo Bursatil, NASDAQ OMX First North, and Warsaw New Connect.

Theoretically, Hong Kong has two boards, the Main Board and the GEM (formally known as the Growth Enterprise Market) Board. Since February 2018 when HKEx has re-positioned GEM as a stand-alone board for SMEs, the number of new listings and funds raised by GEM companies have declined. In 2020 and 2021, there were only 8 and 1 successful GEM IPOs respectively. No IPO was approved on GEM during the first 9 months of 2022. Many institutional investors do not include GEM as a board in which they will trade securities. So, practically the GEM Board plays too insignificant a role. In fact, the vast majority of trading activities are made on the Main Board.

The Chief Executive of Hong Kong in his Policy Address speech delivered on 19 October 2022 stated that HKEx is planning to revitalise GEM Board to provide small and medium enterprises (SMEs) and start-ups with a more effective fundraising platform.

The Financial Services Development Council of Hong Kong recently proposed reform of GEM so that its eligibility requirements take into account the needs of new economy industries. Other stakeholders preferred a new stand-alone listing venue, distinct from GEM, for technology companies. HKSE's proposed regime for Special Technology Companies may address such concern, but will not necessarily address the fund raising needs of SMEs. HKSE will explore other ways to address this as part of a separate exercise.[13]

Possible ways to further enhance Hong Kong as an international IPO market

While external factors may continue to affect the capital markets, there are many areas and ways in which Hong Kong may improve to strengthen its position as an IPO market, such as:

- HKSE has been introducing listing regimes for different types of applicants, the most recent one being Specialist Technology Companies. One common hurdle is the high market capitalisation eligibility requirement. HKSE may consider relaxing

[13] HKEx's Consultation Paper on "Listing Regime for Specialist Technology Companies", page 11: https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/October-2022-Specialist-Technology-Co/Consultation-Paper/cp202210.pdf

such high threshold to attract companies of a smaller size with good business perspectives.

- HKSE may focus more on the quality of disclosure in the prospectus of a listing applicant, rather than intensively assessing the applicant's business growth or IPO placee investors. This may help improve the certainty and transparency of listing applications. After all, the investment quality of any listed company is something for the investors to judge as long as the listing applicant has made proper and accurate disclosures. The assessment on whether to invest in a particular IPO is better to be made by the investing public which include institutional investors and other professional investors who possess the required assessment expertise and experience. Many international stock exchanges adopt the "disclosure" basis in screening listing applications, because the concept of "let the buyers be aware" is most in line with market principles. Also, backdoor listing activities have been substantially curbed since the implementation of the anti-backdoor listing regime in October 2019.

- It is essential for Hong Kong to have an "effective" junior board. The most direct way is to revamp the GEM Board and attract the smaller but promising businesses (not limited to the Specialist Technologies Companies). Introducing a new board carries uncertainty and may not solve the problems faced by the existing 342 GEM listed companies. If GEM Board will remain a market for SMEs, the regulators' vetting procedures are to be simplified in order to avoid listing applicants having to incur disproportionally high listing costs compared with the size of funds they raise. One current grievance is that the regulators' vetting on a GEM application is sometimes even more stringent than for Main Board.

- The GEM Board may include easier paths for SMEs operating in the Greater Bay Area (GBA) of China. Hong Kong is expected to play an active role in the development of GBA by leveraging its status as a financial centre.

- HKSE may consider facilitating listing applications from non-traditional sources such as ASEAN countries in order to diversify listing application sources. The diversification may also attract a wider spectrum and variety of investors to the Hong Kong stock market.

- New rules may be introduced to promote listing applicants who intend to use the IPO proceeds primarily on ESG (Environment, Social and Governance), especially the "environment" or "social" aspects. ESG purposes are not limited to new economy industries. A traditional company, like a manufacturing company, may need to raise funds in an IPO to improve its raw materials, supply chain, production process, waste management or "fair trade" from a ESG perspective.

- Both HKSE and SFC should enforce their regulations on companies already listed in Hong Kong. More thorough analysis on their financial statements and public announcements may be made in order to spot whether any misconduct or rule-breaching behaviour has been conducted. More attention can be put on integrity, honesty and compliance, in order to maintain the quality of the Hong Kong stock market.

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