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**Recent Developments in the
Hong Kong IPO Market**

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Recent Developments in the Hong Kong IPO Market

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Abstract

With the world's largest recorded initial public offering (IPO) of Industrial and Commercial Bank of China in October 2006, the Hong Kong Exchanges and Clearing Limited became the world's second largest market for IPO fund-raising of that year. In the backdrop of the largest subscription rate of 1,703 times of Tianjin Port Development in May 2006 and the highest first trading day profit of 192.6% of Alibaba.com in November 2007, the objective of this study is to investigate the recent developments in the Hong Kong IPO market. As the stock market and IPO market are interlinked and interdependent, to begin with, a brief history of the stock market will be introduced, followed by an analysis of the trend of growth of stock market in Hong Kong. Then, there will be a comprehensive analysis of the recent developments in the Hong Kong IPO market including the growth of the number of IPOs, the growth of the new capital raised and that raised by IPOs, the rules and procedures in listing, the methods of listing, oversubscription and methods of allotment, and the price performance of IPOs.

Keywords: Initial public offerings (IPOs); Listing; Oversubscription; Underpricing

1. Introduction

As an international financial centre, the stock market in Hong Kong has undergone tremendous changes in the past few decades. The total number of listed companies in Hong Kong increased by about five times from 262 in 1980 to 1241 in 2007. The Hong Kong Exchanges and Clearing Limited (HKEx) is now one of the world's leading exchanges with a market capitalization of listed companies of HKD20,698 billion (USD2,654 billion) at the end of 2007, surging by about 100 times from HKD210 billion in 1980. According to the World Federal of Exchanges (WFE), Hong Kong ranked 7th by total domestic market capitalization in the world and 3rd in Asia. The growth of the stock market owes much to the prosperous initial public offering (IPO) market. Regarding the market for IPOs, Hong Kong is one of the fast-growing stock markets for IPO fund-raising. According to the WFE, in 2006, due to the world's largest recorded IPO of Industrial and Commercial Bank of China in October, the HKEx became the world's second largest market for IPO fund-raising. It ranked just after the London Stock Exchange, surpassing the New York Stock Exchange in 2006.

The IPO market has flourished for the past few years and the exceptional high return has attracted both individual investors in Hong Kong and the institutional investors worldwide¹. In 2006 and 2007, the closing prices on the first day of listing were on average 26% and 23% above the IPO prices respectively. Hong Kong individual investors have always been keen to demand for IPOs and to invest in different kinds of products. In 2005, the Securities and Futures Commission (SFC) conducted a retail investor survey to estimate the retail participation in different investment products and explored the investment behavior of retail investors (SFC, 2006). The survey found that 36.8% of Hong Kong adults traded investment products, the most popular investments being Hong Kong stocks (28.3%). 71.7% of investors subscribed for

¹ Most of the literatures use the term small /retail/individual investors to distinguish from another group of large/regular/institutional investors.

shares in IPOs.² Two years later, between March and May 2007, the Hongkong and Shanghai Banking Corporation conducted the sixth annual Investment Market Monitor Survey. The survey found that, in Hong Kong, retail investors were increasingly younger and female. Investors with monthly personal income below HKD10,000 (about USD1,250) grew to 31% from 22%.³

IPO market fever was spreading to the general public. In October 2007, Mainland e-commerce giant Alibaba.com received a total of 566,216 applications pursuant to the Hong Kong Public Offering—representing approximately 10% of the population over 19 years of age⁴—and an oversubscription of about 257 times, freezing about USD57.4 billion. Alibaba.com priced its offer at the high end of the indicated range, at HKD13.5 per share, and rocketed 192.6% to close at HKD39.5 per share. In consideration of the growing importance of Hong Kong's role as a fund-raising market and the near-frantic IPO activities, this study aims to investigate on the recent developments in the Hong Kong IPO market. The remainder of this paper is organized as follows. In section 2, as the stock market and IPO market are interlinked and interdependent, a brief history of the Hong Kong stock market will be introduced, followed by an analysis of its trend of growth. Section 3 investigates the recent growth of the number of IPOs, the growth of the new capital raised and the growth of the new capital raised by IPOs with worldwide comparisons as an attempt to show the progress Hong Kong has made and its position in the global arena to attract new capital. It will be followed by an exploration of different areas, such as the listing rules and procedures, the methods of listing, oversubscription and methods of allotment, and the price performance of IPOs. Section 4 contains the conclusion.

² The SFC conducted a survey to collect investors' views on sponsors and sponsor regulation in 2004. A total of 1623 individuals aged 18 years or above were successfully interviewed, of which 47.1% were identified as retail investors in which 79.7% had subscribed for shares in IPOs.

³ The Standard Finance, 26/10/2007, 'Investors becoming younger and female.' Website: <http://finance.thestandard.com.hk/en/index.asp>

⁴ The mid-2007 population of age above 19 is 5,568,300. Census and Statistical Department.

2. Growth of the Stock Market in Hong Kong

Hong Kong Exchanges and Clearing Limited (HKEx) is now one of the world's leading exchanges with a market capitalization of listed companies of HKD20,698 billion (USD2,654 billion) at the end of 2007, being the 7th largest in the world and the 3rd largest in Asia. The total number of listed companies was 1,241, in which 1,048 and 193 companies were listed on the Main Board and Growth Enterprise Market (GEM) respectively. Among them, there were 146 H-share companies with year-end market capitalization of HKD5,079.5 billion, and 93 red chips with HKD5,524.5 billion. H shares and red chips together constituted 51.2% of the total market capitalization (HKD20,698 billion). In this section, a brief history of stock market will be introduced, followed by an analysis of the trend of growth of the stock market in Hong Kong.

2.1 Brief History of the Stock Market

Security trading in Hong Kong began in 1866. Hong Kong did not have its first formal stock market until 1891. It was named the Hong Kong Stock Exchange in 1914 (HKEx Fact Book, 1999). Due to the sharp surge of the stock market activities during the years of 1969-1972, three new stock exchanges were established. To unify the four stock exchanges⁵, the Stock Exchange of Hong Kong Limited (the Exchange) was incorporated in 1980 under the Stock Exchanges Unification Ordinance and commenced trading on 2 April 1986. Faced with flaws in the 1987 market crash, the Securities and Futures Commission (SFC) was set up in 1989 to operate as the independent regulator of the securities and futures markets in Hong Kong. Then, the first China-incorporated enterprise (H-share), Tsingtao Brewery Co. Ltd., was listed in July 1993. In addition, to provide fund raising opportunities for growth companies and to promote the development of technology industries, the Growth Enterprise

⁵ Stock Exchange of Hong Kong was officially set up in 1980 following the merger of the four stock exchanges, namely the Hong Kong Stock Exchange, the Far East Stock Exchange, the Kam Ngan Stock Exchange, and the Kowloon Stock Exchange.

Market (GEM) was introduced in November 1999. To implement the reforms mentioned in the 1999 Financial Budget, the Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited demutualized. Together with the Hong Kong Securities Clearing Company Limited, they became wholly owned subsidiaries of Hong Kong Exchanges and Clearing Limited (HKEx) and the HKEx was listed on 27 June 2000. To consolidate 10 pieces of legislation governing the securities and futures markets and based on international standards, the SFC introduced the Securities and Futures Ordinance (SFO) in 2003, which marked the beginning of a new regulatory era. In 2004, the Central Government announced that the Mainland would make good use of overseas capital markets to tap international funds for investments in the Mainland; also, the financial co-operation between Hong Kong and the Mainland will be strengthened. Starting from mid-2005, as the Mainland implemented the share reform and suspended the domestic fund raising activities, the role of Hong Kong as the premier listing centre for Mainland enterprises were further reinforced (SFC, 2007).

2.2 Trend of Growth of the Stock Market

The Hong Kong stock market demonstrated a strong growth over the past decades. The total market capitalization of the securities market reached a new record high of HKD23,197 billion on 30 October 2007. On the same day, the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (H-shares Index) also reached a new record closing of 31,638 points and 20,400 points respectively. Moreover, single-day turnover in the securities market reached a record high of HKD210.5 billion on 30 October 2007. Table 1 shows the trend of the growth of the stock market in Hong Kong from 1980 to 2007.

**Table 1 The Trend of Growth of the Stock Market in Hong Kong
from 1980 to 2007**

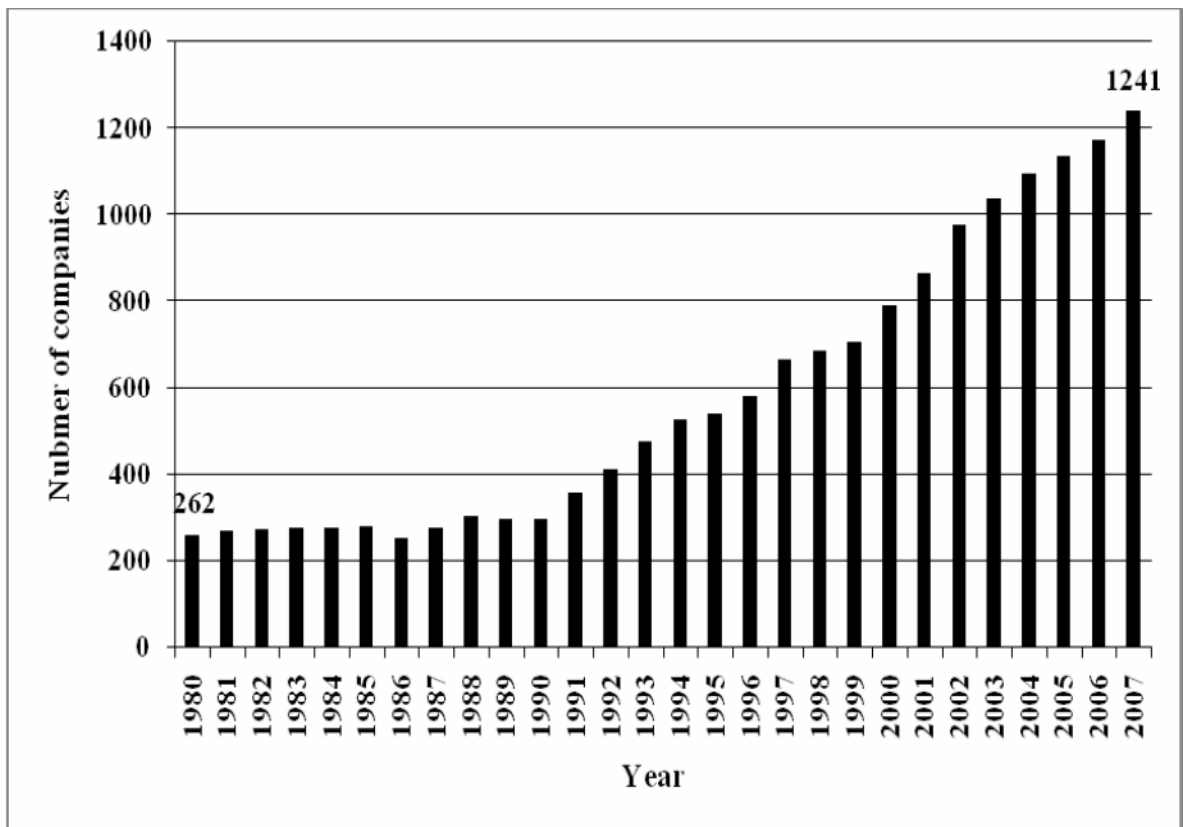
Year	Number of listed companies	Total market capitalization (HKD billion)	Gross Domestic Product (GDP) (HKD billion)	Total market capitalization / GDP
1980	262	210	143	1.46
1981	269	232	173	1.34
1982	273	132	195	0.68
1983	277	142	216	0.66
1984	278	185	261	0.71
1985	279	270	277	0.98
1986	253	419	319	1.31
1987	276	420	394	1.07
1988	304	580	465	1.25
1989	298	605	536	1.13
1990	299	650	599	1.09
1991	357	949	690	1.37
1992	413	1332	805	1.65
1993	477	2975	928	3.21
1994	529	2085	1,047	1.99
1995	542	2348	1,116	2.10
1996	583	3476	1,229	2.83
1997	666	3203	1,365	2.35
1998	688	2662	1,293	2.06
1999	708	4735	1,267	3.74
2000	790	4862	1,318	3.69
2001	867	3946	1,299	3.04
2002	978	3611	1,277	2.83
2003	1037	5548	1,235	4.49
2004	1096	6696	1,292	5.18
2005	1135	8180	1,383	5.92
2006	1173	13338	1,476	9.04
2007	1241	20698	1,616	12.81

Note: This table includes all the companies listed on both the Main Board Section and the GEM Section.

Source: HKEx Fact Book; Census and Statistics Department

As shown in the Figure 1 below, the total number of listed companies in Hong Kong increased by about five times from 262 in 1980 to 1,241 in 2007. The growth of number of listed companies was comparatively slow in the 1980s with no more than 300 every year. However, the number increased significantly from 1991 and the average number of listed companies in 1990s was 526, which was almost double the average number of 277 in 1980s. From 2001 to 2007, the average number of listed companies went up to 1,040, again doubling the average number in 1990s. The recent sharp increase of the number of listed companies and the total market capitalization was due to the thriving IPO activities, which increased remarkably from 1991. The study on the recent developments in the IPO market will be dealt with in the next section.

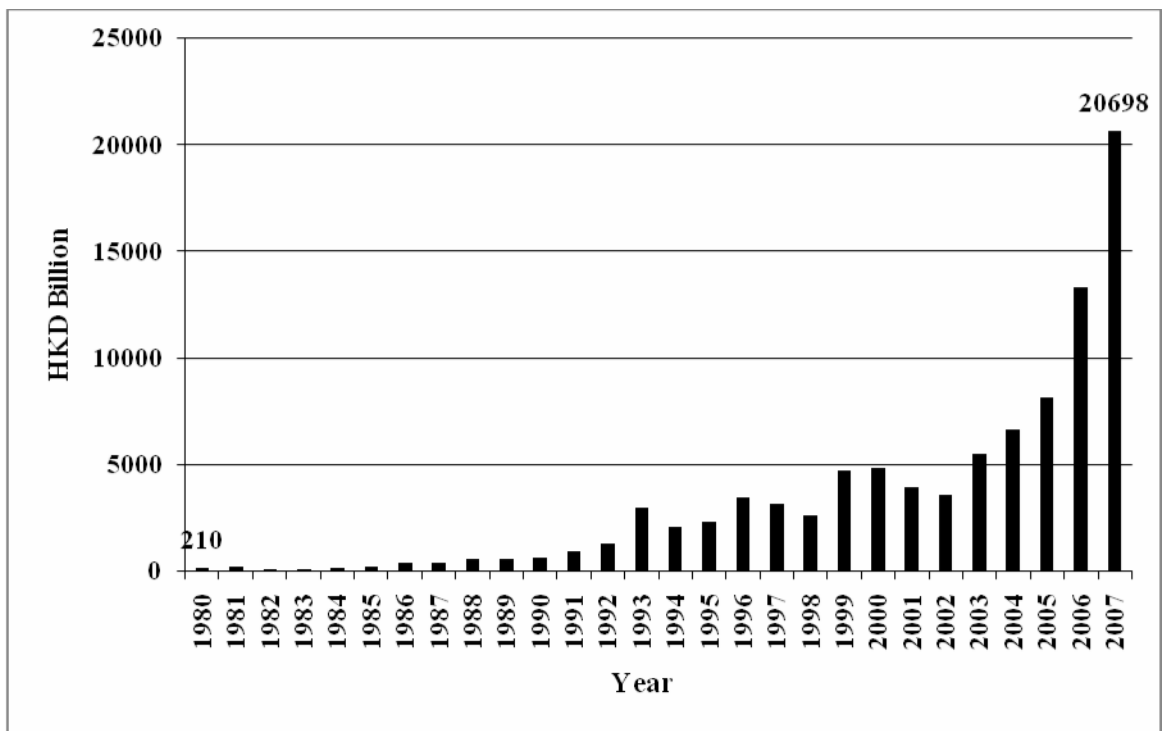
Figure 1 Number of Listed Companies from 1980 to 2007



Source: HKEx Fact Book

Market capitalization is the most commonly used indicator to measure the size of a stock market. Figure 2 shows that the total market capitalization at the end of 2007 was HKD20,698 billion (USD 2,654 billion), surging by about 100 times from HKD210 billion in 1980. The average growth rate was 23.7% and the recent growth rate from 2003 to 2007 was even higher with an average 42.9% due to bullish stock market and prosperous IPO market.

Figure 2 Total Market Capitalization of Listed Companies in Hong Kong from 1980 to 2007



Source: HKEx Fact Book

According to the WFE, Hong Kong ranked 7th by total domestic market capitalization in the world and 3rd in Asia as at the end of 2007. Table 2 shows the ranking of stock markets in the world by domestic market capitalization.

Table 2 Ranking of the Stock Markets in the World by Domestic Market Capitalization from 2001 to 2007

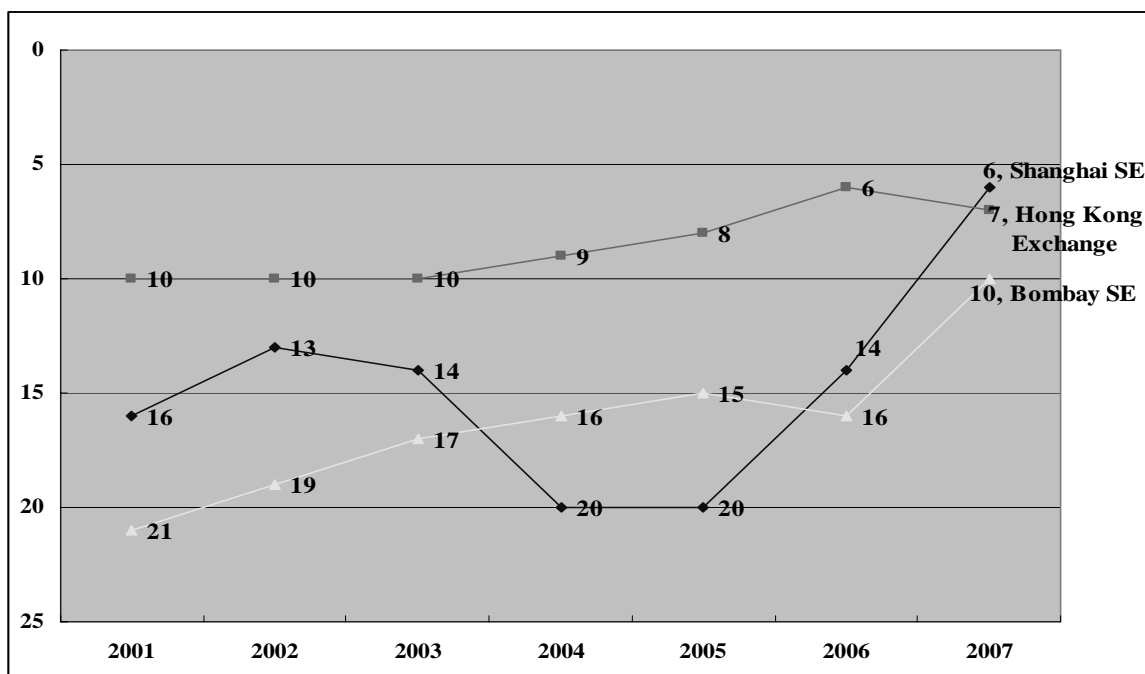
Stock Exchanges	Country	Domestic Market Capitalization 2007 (USD billion)	Rank						
			2007	2006	2005	2004	2003	2002	2001
NYSE Group	United States	15,651	1	1	1	1	1	1	1
Tokyo SE Group	Japan	4,331	2	2	2	2	2	2	3
Euronext ¹	N/A	4,223	3	5	5	5	5	5	5
NASDAQ	United States	4,014	4	3	3	3	3	3	2
London SE	United Kingdom	3,852	5	4	4	4	4	4	4
Shanghai SE	China	3,694	6	14	20	20	14	13	16
Hong Kong Exchanges	Hong Kong, China	2,654	7	6	8	9	10	10	10
TSX Group	Canada	2,187	8	7	6	7	7	7	7
Deutsche Börse	Germany	2,105	9	8	7	6	6	6	6
Bombay SE	India	1,819	10	16	15	16	17	19	21

Note: 1. Euronext is the operator of Amsterdam (Netherlands), Brussels (Belgium), Lisbon (Portugal) and Paris (France) exchanges, and of the London International Financial Futures Exchange (Euronext.liffe).

Source: WFE

As shown in the Table 2, besides the top five stock markets in 2007, which could always keep their ranks continuously from 2001 to 2007, there were some stock markets emerging from Asian countries. Figure 3 shows that, in the past few years, the ranking of Shanghai Stock Exchange and Bombay Stock Exchange in the world jumped rapidly from 20 and 21 to 6 and 10 respectively, while Hong Kong Exchanges rose steadily from 10 to 7.

Figure 3 Ranking of Shanghai SE, Hong Kong Exchanges and Bombay SE by Domestic Market Capitalization (USD billion)



Source: WFE

While the market capitalization is a popular indicator to measure the size of a stock market, market capitalization as percentage of GDP measures the size of a stock market relative to the size of an economy.⁶ As shown in the Table 1, the ratio increased by about 10 times from 1.46 in 1980 to 12.81 in 2007. This ratio never reached 2.0 in the 1980s and was also always below 4.0 in 1990s. However, the ratio grew astronomically to 12.81 in 2007. With a total market capitalization of HKD20,698 billion (USD2,654) and a GDP of HKD1,616 billion (USD207 billion) in 2007, the ratio was 12.81 times for Hong Kong, which was the highest in the world, and by a wide margin⁷. Table 3 below shows the top 20 stock markets in the world by ratio of market capitalization to GDP. The high market capitalization-to-GDP ratio for Hong Kong is mainly due to the increasing number of the listing of Mainland

⁶ Another measure was suggested to express as percentage of Gross Domestic Savings, which is a measure of the amount of domestic savings that can be channelled into investments through fund-raising activities in the stock market, the debt market and banks. Compared to the ratio of United Kingdom and United States, which were 12 and 8 respectively, the ratio was 69 in Hong Kong in 2004 and was then the highest in the world. See Yam (2005) for detailed discussion of the measure.

⁷ The market capitalization-to-GDP ratio was also high for Switzerland (3.1), South Africa (3.0) and Singapore (3.3) in 2007.

enterprises in Hong Kong and the expansion of “Hong Kong” companies into overseas countries. The listing of Mainland enterprises in Hong Kong means that the Hong Kong stock market is effectively serving two economies, that is, Hong Kong and Mainland (SFC, 2005).

Table 3 The Top 20 Stock Markets in the World by Ratio of Market Capitalization to GDP in 2007

Stock Exchanges	Rank	Market Capitalization (USD million)	Country	GDP (USD million)	GDP Rank	Market Capitalization / GDP
NYSE Group	1	15,650,833	United States	13,811,200	1	1.1
Tokyo SE Group	2	4,330,922	Japan	4,376,705	2	1.0
Euronext ¹	3	4,222,680	N/A	3,985,292	N/A	1.1
NASDAQ	4	4,013,650	United States	13,811,200	1	0.3
London SE	5	3,851,706	United Kingdom	2,727,806	5	1.4
Shanghai SE	6	3,694,348	China	3,280,053	4	1.1
Hong Kong Exchanges	7	2,654,416	Hong Kong	206,706	36	12.8
TSX Group	8	2,186,550	Canada	1,326,376	9	1.6
Deutsche Börse	9	2,105,198	Germany	3,297,233	3	0.6
Bombay SE	10	1,819,101	India	1,170,968	12	1.6
BME Spanish Exchanges	11	1,799,834	Spain	1,429,226	8	1.3
NSE of India	12	1,660,097	India	1,170,968	12	1.4
Sao Paulo SE	13	1,369,711	Brazil	1,314,170	10	1.0
Australian SE	14	1,298,315	Australia	821,716	15	1.6
Swiss Exchange	15	1,271,048	Switzerland	415,516	22	3.1
OMX Nordic Exchange ²	16	1,242,578	N/A	23,715,746	N/A	0.1
Korea Exchange	17	1,122,606	Korea, Rep.	969,795	13	1.2
Borsa Italiana	18	1,072,535	Italy	2,107,481	7	0.5
JSE, South Africa	19	828,185	South Africa	277,581	28	3.0
Shenzhen SE	20	784,519	China	3,280,053	4	0.2

Note: 1. Euronext is the operator of Amsterdam (Netherlands), Brussels (Belgium), Lisbon (Portugal) and Paris (France) exchanges, and of the London International Financial Futures Exchange (Euronext.liffe). The GDP of Euronext is calculated by adding the GDP of the four countries, namely Netherlands, Belgium, Portugal and France.

2. OMX Nordic Exchange started its consolidation process in 2004, and the Group includes the Copenhagen (Denmark), Helsinki (Finland), Iceland (Iceland), Stockholm (Sweden), Tallinn (Estonia), Riga (Latvia) and Vilnius (Lithuania) Stock Exchanges. The GDP of OMX Nordic Exchange is calculated by adding the GDP of the above seven countries.

Source: WFE, World Bank

3. Recent Developments in the Hong Kong IPO Market

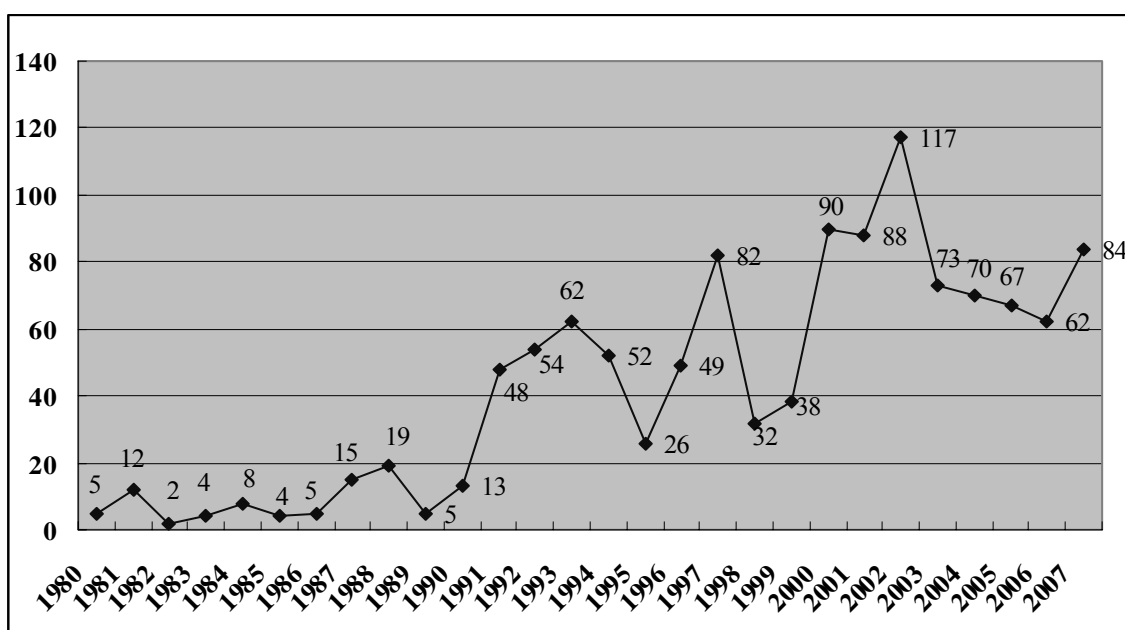
In the preceding section, I have examined the history of the stock market and its trend of growth. It is noteworthy that the recent rapid increase of the number of listed companies and the total market capitalization was largely due to the thriving IPO activities and buoyant economic conditions. As the stock market and IPO market are interlinked and interdependent, the growth of the stock market owes much to the great importance of Hong Kong's role as a capital-raising venue, especially for Mainland enterprises. In 2006, Hong Kong became the 2nd largest IPO fund raising centre. With the world record largest IPO of Industrial and Commercial Bank of China (ICBC) in October 2006, HKEx was ahead of the New York Stock Exchange in terms of funds raised by new listings and just behind the London Stock Exchange.

In this section of recent developments in the IPO market, I will investigate the recent growth of the number of IPOs, the growth of the new capital raised and the growth of the new capital raised by IPOs with worldwide comparisons as an attempt to show the progress Hong Kong has made and its position in the global arena to attract new capital. It will be followed by an exploration of different areas, such as the listing rules and procedures, the methods of listing, oversubscription and methods of allotment, and the price performance of IPOs.

3.1 Growth of the number of IPOs

A total of 84 companies were newly listed on the Main Board and GEM in 2007, growing more than 16 times from 5 in 1980 to 84 in 2007. Figure 4 shows the trend of the growth of the number IPOs from 1980 to 2007.

Figure 4 Number of IPOs from 1980 to 2007



Source: HKEx

Since the total number of listed companies also increased significantly during the same period, the figures of the number of IPOs as percentage of total number of listed companies were calculated to show the contribution of the number of IPOs to the overall size of the stock market in each year. As indicated in the Table 4, the lowest and the highest percentages in 1980s were 0.7% of 1982 and 6.3% of 1988, whereas the lowest and the highest figures in 1990s were 4.3% and 13.4% respectively. From 2000 to 2007, the lowest and the highest percentages were 5.3% of 2007 and 12% of 2002 respectively. By analyzing the figures, the IPO activities were on an upward trend of growth with the ups and downs of the trend reflecting the economic growth cycle in the Hong Kong economy and the impact of growing importance of the listing

of Mainland enterprises in Hong Kong. Furthermore, a record-breaking number of 117 companies were listed in 2002, which was largely due to the sudden surge of the listing of companies on the GEM. There were 60 companies listed on the Main Board and 57 on the GEM in 2002.

Table 4 Number of IPOs of the Main Board and the Growth Enterprise Market in Hong Kong from 1980 to 2007

Year	No. of listed companies	No. of IPOs on the Main Board	No. of IPOs on the GEM	Total no. of IPOs	No. of IPOs as % of no. of listed companies (%)
1980	262	5		5	1.9
1981	269	12		12	4.5
1982	273	2		2	0.7
1983	277	4		4	1.4
1984	278	8		8	2.9
1985	279	4		4	1.4
1986	253	5		5	2.0
1987	276	15		15	5.4
1988	304	19		19	6.3
1989	298	5		5	1.7
1990	299	13		13	4.3
1991	357	48		48	13.4
1992	413	54		54	13.1
1993	477	62		62	13.0
1994	529	52		52	9.8
1995	542	26		26	4.8
1996	583	49		49	8.4
1997	666	82		82	12.3
1998	688	32		32	4.7

Table 4 Number of IPOs of the Main Board and the Growth Enterprise Market in Hong Kong from 1980 to 2007 (Continued)

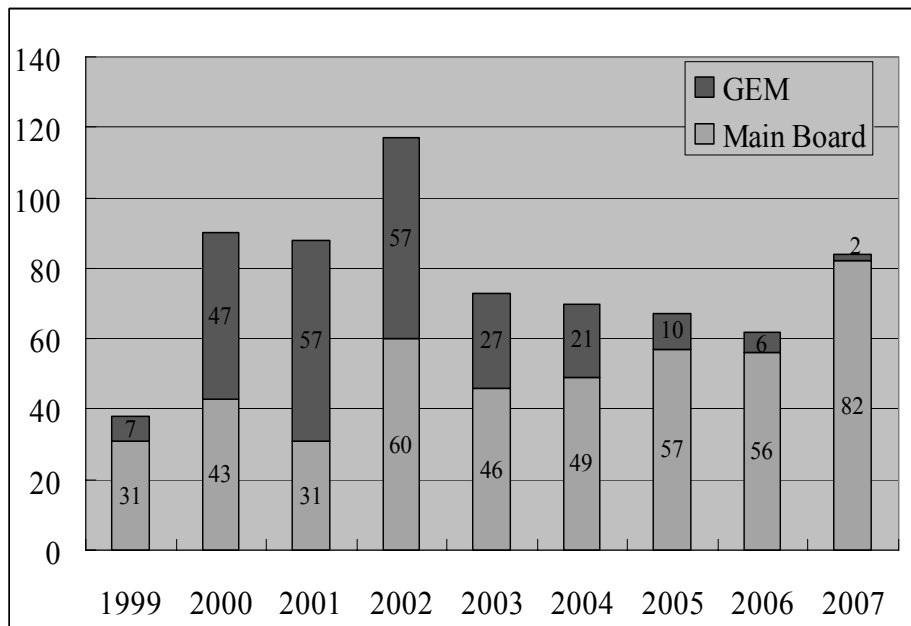
Year	No. of listed companies	No. of IPOs on the Main Board	No. of IPOs on the GEM	Total no. of IPOs	No. of IPOs as % of no. of listed companies (%)
1999	708	31	7	38	5.4
2000	790	43	47	90	11.4
2001	867	31	57	88	10.1
2002	978	60	57	117	12.0
2003	1037	46	27	73	7.0
2004	1096	49	21	70	6.4
2005	1135	57	10	67	5.9
2006	1173	56	6	62	5.3
2007	1241	82	2	84	6.8

Note: Since GEM was introduced in 1999, there was no figure before 1999.

Source: HKEx Fact Book

GEM was introduced in 1999 with its aim to provide fund raising opportunities for growth companies of all sizes from all industries. It offers investors an alternative of investing in “high growth, high risk” businesses and operates on the philosophy of “buyers beware” and “let the market decide” supported by a strong disclosure regime (HKEx Fact Book, 1999). Figure 5 illustrates the composition of the total number of new listed companies from 1999 to 2007. The number of new listed companies on GEM dropped drastically to two only in 2007, showing the plight of losing attractiveness to raise funds.

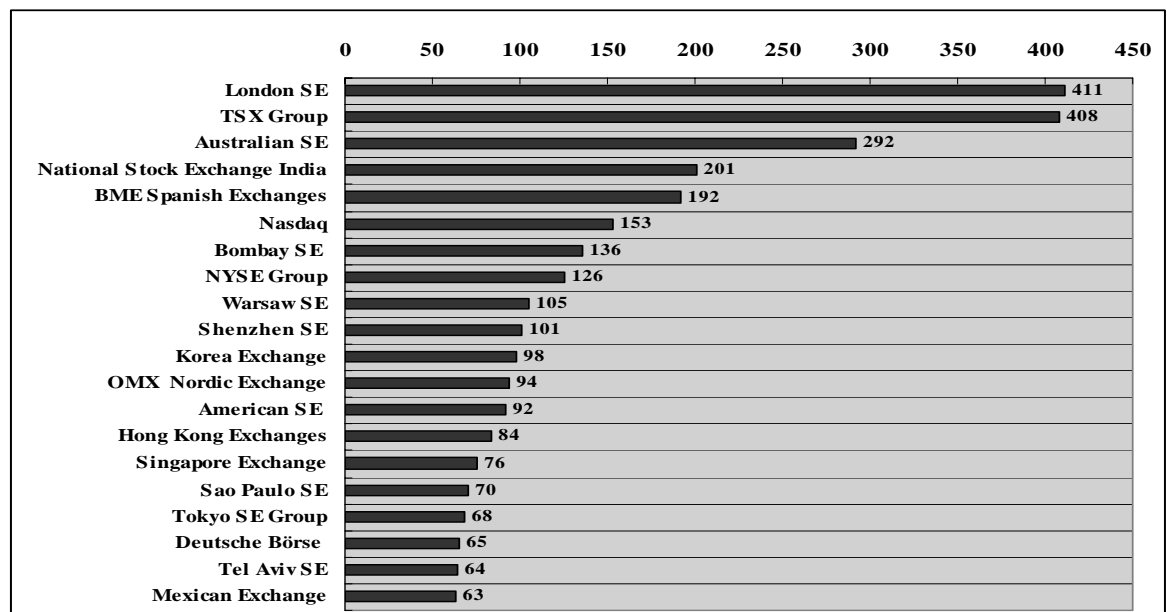
Figure 5 Number of IPOs in the Main Board and the GEM from 1999 to 2007



Source: HKEx Fact Book

According to the statistics of the WFE, London Stock Exchange had the greatest number of new listed companies and HKEx ranked 14th in terms of total number of new listings in 2007 as indicated in Figure 6.

Figure 6 The 20 Highest Numbers of New Listings in the World in 2007



Source: WFE

3.2 Growth of the New Capital Raised

Regarding the new capital raised in Hong Kong, there has been an increasing trend in the total new capital raised from 1993 to 2007. Amount of capital raised increased by more than 4 times from HKD90 billion in 1993 to HKD590 billion in 2007 as shown in Table 5. The total capital raised accumulated to HKD3.272 trillion and the average amount of capital raised was HKD218 billion in the past fifteen years.

Table 5 New Capital Raised in Hong Kong

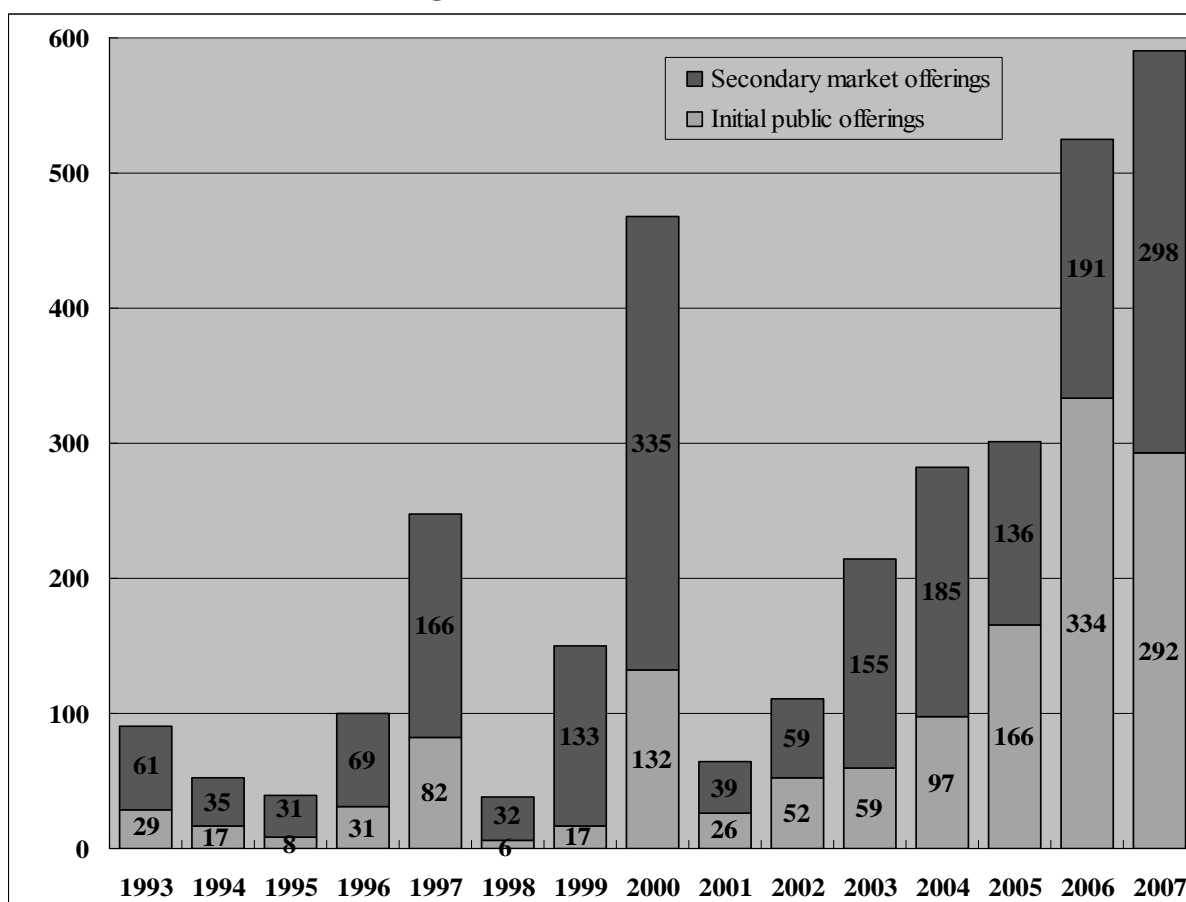
Year	New capital raised (in HKD billion)			New capital funds raised by IPOs as percentage of the total new capital raised (%)
	Total	IPOs	Secondary market offerings	
1993	90	29	61	32.2
1994	52	17	35	32.7
1995	39	8	31	20.5
1996	100	31	69	31.0
1997	248	82	166	33.1
1998	38	6	32	15.8
1999	150	17	133	11.4
2000	467	132	335	28.3
2001	64	26	39	39.9
2002	111	52	59	47.0
2003	214	59	155	27.7
2004	282	97	185	34.5
2005	302	166	136	54.9
2006	525	334	191	63.6
2007	590	292	298	49.5
Total	3,272	1,348	1,925	

Source: HKEx Fact Book

The new capital raised could stem from the IPOs as well as the secondary market offerings. IPOs refer to the listing of companies which have not had their shares listed in any exchanges before, while secondary market offering refers to the issuing of the new stock by companies with a listed status. During the past fifteen years, the total

new capital raised by IPOs and secondary market offerings accumulated to HKD1.348 trillion and HKD1.925 trillion, accounting for 41% and 59% of the total new capital raised respectively. In this paper, only an overview of the IPO market will be studied. To illustrate the significance of IPOs, the figures of the new capital raised by IPOs as percentage of the total new capital raised was calculated to reflect the trend of IPOs as an important function to raise new funds. The figures ranged from the lowest of 11.4% in 1999 to the highest of 63.6% in 2006. The percentages were exceptionally high in the past three years (50% in 2007 and greater than 50% in 2005 and 2006) comparing to the previous years. This might be attributed to the share reform and suspension of the domestic fund raising activities in the Mainland starting from 2005. Figure 7 shows the composition of the funds raised by IPOs and secondary market offerings.

Figure 7 Total New Capital Raised in Hong Kong by IPOs and Secondary Market Offerings from 1993 to 2007 (Main Board and GEM)



Source: HKEx

Compared with other countries, Hong Kong was among the top five WFE member exchanges in terms of the total new capital raised during 2003-2006 and has attained its highest rank, the 4th, in 2006. Table 6 shows the ranking of the stock exchanges in the world by total new capital (IPOs and secondary market offerings) from 2001 to 2006.

Table 6 Ranking of the Stock Exchanges in the World by Total New Capital Raised (IPOs and Secondary Market Offerings) from 2001 to 2006

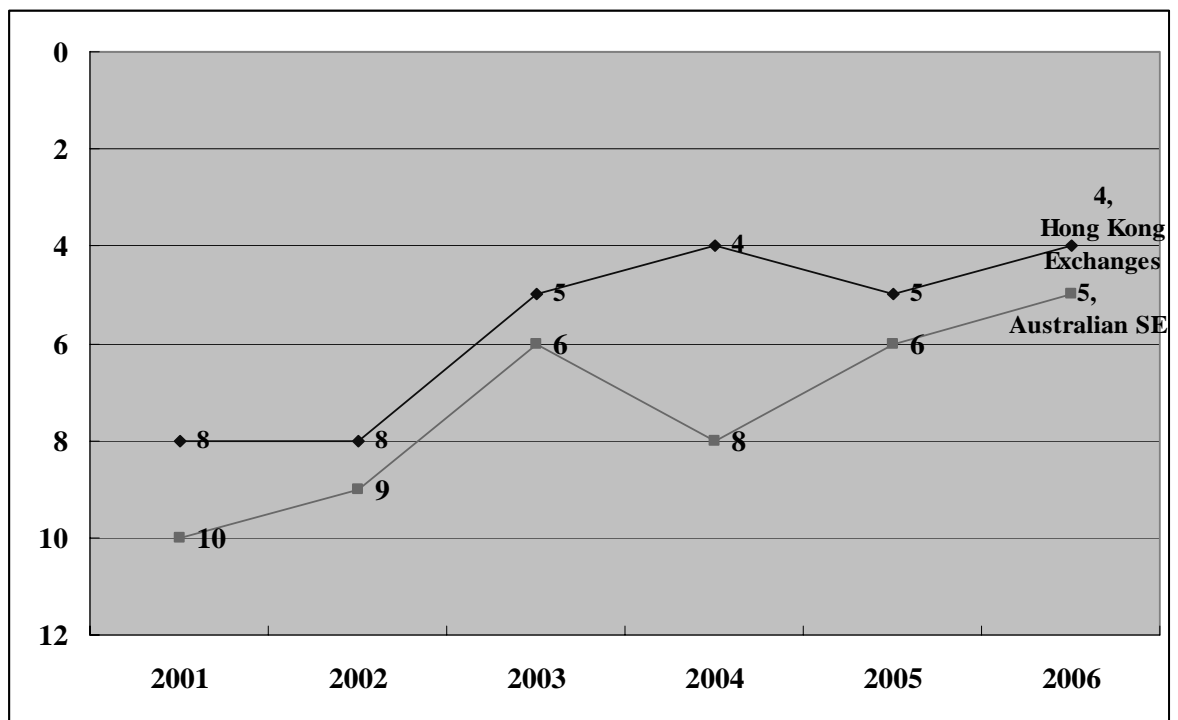
Stock Exchanges	New capital raised in 2007 ² (USD million)	New capital raised in 2006 (USD million)	Rank					
			2006	2005	2004	2003	2002	2001
NYSE Group	136,984.20	103,170.10	1	1	1	1	1	1
Euronext ¹	N/A	100,378.20	2	2	2	2	2	2
London SE	82,785.20	94,368.00	3	3	6	3	3	4
Hong Kong Exchanges	74,027.00	67,437.40	4	5	4	5	8	8
Australian SE	69,288.50	46,524.90	5	6	8	6	9	10
TSX Group	56,052.30	44,076.10	6	4	5	7	7	7
BME Spanish Exchanges	116,766.70	28,231.10	7	13	3	8	4	5
Tokyo SE	17,855.70	22,133.70	8	7	7	4	5	6
NASDAQ	16,192.60	17,374.90	9	10	10	13	6	3
Shanghai SE	87,165.50	16,552.30	10	24	15	12	10	N/A

Note:

1. Euronext is the operator of Amsterdam (Netherlands), Brussels (Belgium), Lisbon (Portugal) and Paris (France) exchanges, and of the London International Financial Futures Exchange (Euronext.liffe).
2. Since the figure of Euronext in 2007 was not available, the countries were not ranked in 2007. However, excluding Euronext, Hong Kong could be ranked 4th just after NYSE, BME Spanish Exchanges and London SE.

Figure 8 shows that, in the past few years, the ranking of Hong Kong Exchanges and Australian SE have risen steadily from 8 and 10 in 2001 to the 4 and 5 in 2006 in the world respectively, while the top three stock exchanges, NYSE, Euronext and London SE, could always keep their rankings during the period.

Figure 8 Ranking of Hong Kong Exchanges and Australian SE by New Capital Raised from 2001 to 2006



Source: WFE

3.3 Growth of the New Capital Raised by IPOs

Considering the new capital raised by IPOs only, the amount reached a record high of HKD334 billion in 2006, mainly due to the listing of three H-share mega-sized banks, namely Industrial and Commercial Bank of China (ICBC), Bank of China (BOC) and China Merchants Bank (CMB). ICBC's Hong Kong and international offerings raised over HKD124.9 billion (about 37% of the total funds raised by IPOs in that year) and was the ever largest IPO in Hong Kong. ICBC was also the first Mainland enterprise with simultaneous listing of H shares in Hong Kong and A shares⁸ in the Shanghai Stock Exchange. Together with its A share issue, it was the largest IPO by total funds raised (USD19.1 billion) in the world stock market history (HKEx Fact Book 2006). During 2007, Hong Kong continued to be the fund-raising platform for Mainland companies. Privately-owned Mainland companies (Minyings), H-shares and red chips accounted for 42%, 26% and 17% of the total funds raised respectively. The non-Mainland companies only accounted for the rest of the 15% (SFC, 2008). Altogether, a total amount of HKD292.4 billion (USD37,485.9 million) was raised by 80 IPOs⁹, making Hong Kong the 4th largest IPO market in the world, after NYSE, Shanghai SE and London SE as shown in Table 7.

⁸ A shares refer to the companies incorporated in Mainland China and are traded in the Mainland A-share markets. The prices of A shares are quoted in Renminbi. Currently only mainlanders and selected foreign institutional investors are allowed to trade A shares.

⁹ There were four companies listed by introduction and, therefore, funds were only raised by the 80 newly listed companies.

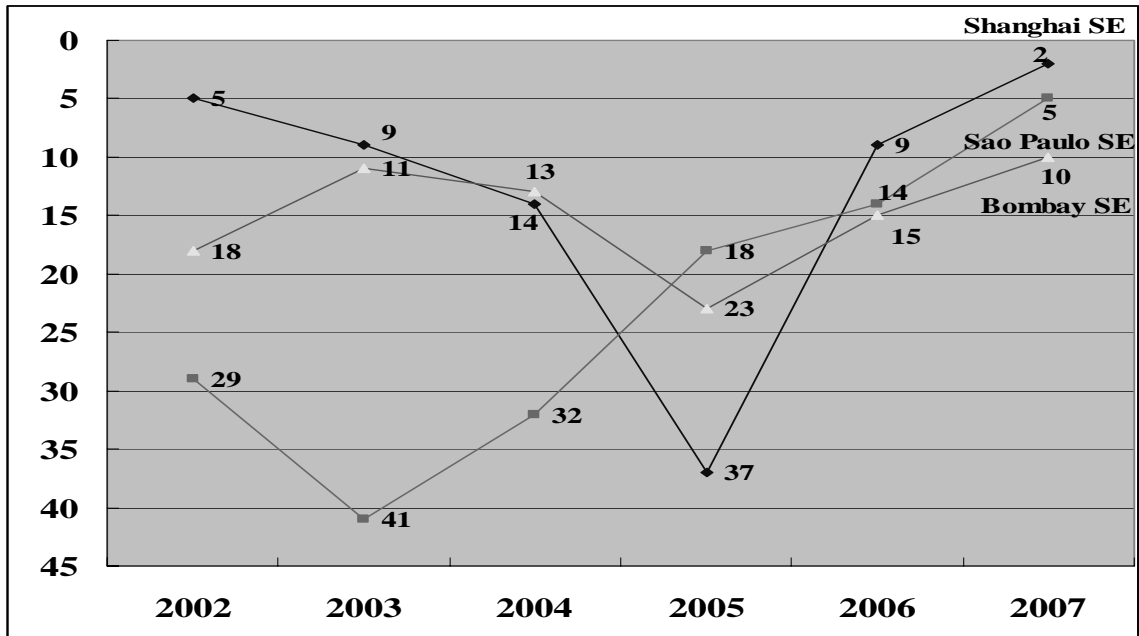
Table 7 Ranking of the Stock Exchanges in the World by New Capital Raised by IPOs from 2001 to 2007

Stock Exchanges	New Capital Raised by IPOs in 2007 (USD million)	Rank						
		2007	2006	2005	2004	2003	2002	2001
NYSE Group	60,385.80	1	3	1	1	1	1	2
Shanghai SE	57,770.00	2	9	37	14	9	5	N/A
London SE	50,026.20	3	1	2	4	6	3	5
Hong Kong Exchanges	37,485.90	4	2	3	5	5	4	8
Sao Paulo SE	27,834.20	5	14	18	32	41	29	N/A
BME Spanish Exchanges	21,726.20	6	6	9	2	2	2	3
Australian SE	16,725.50	7	8	5	9	8	13	11
NASDAQ	16,192.60	8	5	8	3	7	8	4
Euronext	13,329.90	9	4	4	7	19	11	1
Bombay SE	9,642.80	10	15	23	13	11	18	N/A

Source: WFE

During 2002 to 2007, NYSE, London SE and Hong Kong Exchanges could always maintain their leading status among the stock exchanges in the world. In addition, it is noteworthy that there were three stock exchanges, namely Shanghai SE (China), Sao Paulo SE (Brazil) and Bombay SE (India) surging into the top 10 in the world. Special attention should be paid to Shanghai SE, which has moved swiftly to the 2nd largest IPO funds raising stock exchanges in the world in 2007, demonstrating its more important role as a national financial centre in China. Figure 9 shows the trend of growth of the three stock exchanges by new capital raised by IPOs from 2002 to 2007.

Figure 9 Ranking of Shanghai SE, Sao Paulo and Bombay SE by New Capital Raised by IPOs from 2002 to 2007



Source: WFE

As an international financial centre, it should provide a platform for the funds of one part of the world to be invested in the other parts of the world. Another way of showing the internationality of Hong Kong is to look at the new capital raised by IPOs as percentage of GDP. As indicated in Table 8, this ratio was 18.13 in 2007, which was far ahead of the second highest ratio of 3.2 of Singapore. With this measure, Hong Kong is the most international among the fund centres in the world¹⁰.

¹⁰ Instead of using the figures of the new capital raised by IPOs, Yam (2005) measured the ratio of the total amount of equity funds as percentage of Gross Domestic Savings (GDS) and Gross Domestic Product (GDP) to justify the same argument.

**Table 8 Capital Raised by IPOs as percentage of GDP
of the Top 20 Stock Exchanges in 2007**

Rank	Stock Exchanges	Capital raised by IPOs (USD million)	Country	GDP (USD million)	Capital raised by IPOs as percentage of GDP
1	NYSE Group	60,385.80	United States	13,811,200	0.44
2	Shanghai SE	57,770.00	China	3,280,053	1.76
3	London SE	50,026.20	United Kingdom	2,727,806	1.83
4	Hong Kong Exchanges	37,485.90	Hong Kong	206,706	18.13
5	Sao Paulo SE	27,834.20	Brazil	1,314,170	2.12
6	BME Spanish Exchanges	21,726.20	Spain	1,429,226	1.52
7	Australian SE	16,725.50	Australia	821,716	2.04
8	NASDAQ	16,192.60	United States	13,811,200	0.12
9	Euronext	13,329.90	N/A	3,985,292	0.33
10	Bombay SE	9,642.80	India	1,170,968	0.82
11	National Stock Exchange India	7,874.10	India	1,170,968	0.67
12	TSX Group	7,369.50	Canada	1,326,376	0.56
13	OMX Nordic Exchange	6,057.40	N/A	23,715,746	0.03
14	Borsa Italiana	5,930.80	Italy	2,107,481	0.28
15	Shenzhen SE	5,670.70	China	3,280,053	0.17
16	Warsaw SE	5,486.40	Poland	420,321	1.31
17	Singapore Exchange	5,159.80	Singapore	161,347	3.20
18	Colombia SE	4,597.10	Mexico	893,364	0.51
19	Istanbul SE	3,372.80	Turkey	657,091	0.51
20	Korea Exchange	3,170.00	Korea, Rep.	969,795	0.33

Source: WFE, World Bank

Furthermore, Mainland-related companies raised much more funds upon listing on average than non-Mainland-related companies. Hong Kong, as a prime fund-raising platform for Mainland enterprises, could be manifested by the fact that, during 2002 to 2007, the top 10 largest IPOs were all Mainland-related companies, with nine H shares and one red chip. Table 9 shows the top 10 IPOs with the largest funds raised from 2002 to 2007.

Table 9 Top 10 IPOs with the Largest Funds Raised from 2002 to 2007

Rank	Stock Code	Stock Name	Listing Date	Funds Raised (HKD million)
1	01398	Industrial and Commercial Bank of China Ltd*	27 Oct 2006	124,948
2	03988	Bank of China Ltd*	1 Jun 2006	86,741
3	00939	China Construction Bank Corporation*	27 Oct 2005	71,578
4	00998	China CITIC Bank Co. Ltd*	27 Apr 2007	32,923
5	02628	China Life Insurance Co. Ltd*	18 Dec 2003	26,714
6	01088	China ShenHua Energy Co. Ltd*	15 Jun 2005	25,489
7	00390	China Railway Group Ltd*	7 Dec 2007	22,108
8	03968	China Merchants Bank Co. Ltd*	22 Sep 2006	20,691
9	02388	BOC Hong Kong (Holdings) Ltd [#]	25 Jul 2002	20,516
10	01800	China Communications Construction Co. Ltd*	15 Dec 2006	18,515

Note: * H-share companies; # Red-chip companies.

Source: HKEx Fact Book

3.4 Listing Rules and Procedures of New Listing

As mentioned in the previous sections, there has been keen competition to become the major stock exchanges for companies to raise funds. With an abundance of professional expertise, sound market infrastructure and regulatory framework, strong legal system and an ideal venue for issuers to achieve exposure in the rapidly growing Mainland market, Hong Kong has its competitive edge to be the suitable place for listing. To safeguard the quality of the regulatory framework, HKEx bears the responsibility to implement the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Main Board Rules”). Chapter 8 of the Main Board Rules is the “Qualifications for Listing”, which sets out the basic conditions to be met as a pre-requisite to the listing of equity securities. Based on the main requirements of the updated version on 1 January 2009, the following table provides a brief summary of the salient features of the Main Board Rules.

Table 10 A Brief Summary of the Salient Features of the Main Board Rules

A: Listing Requirement			
Financial Requirement (A Main Board new applicant must fulfill one of three financial criteria (Main Broad Rule 8.05))	Three financial criteria	Minimum Market Capitalization at the time of listing and others	
	1.Profit Test	At least HKD200 million	Profits of HKD50 million in the last 3 years (with HKD20 million in the most recent year and an aggregate of HKD30 million in the two preceding years)
	2. Revenue Test	At least HKD4 billion	At least HKD500 million for the most recent audited financial year
	3. Revenue/ Cashflow Test	At least HKD2 billion	At least HKD500 million for the most recent audited financial year Positive cashflow from operating activities of at least HKD100 million in aggregate for the three preceding financial years
Operating history and management	<p>New applicants must have a trading record of at least 3 financial years with:</p> <p>1. Management continuity for at least the 3 preceding financial years; and</p> <p>2. Ownership continuity and control for at least the most recent audited financial year.</p> <p>(Main Board Rule 8.05)</p>		
Minimum public float	<p>At least 25% of the issuer's total issued share capital subject to a minimum of HKD50 million must at all times be held by the public.</p> <p>*For issuers with an expected market capitalization of over HKD10 billion at the time of listing, the Exchange may accept a lower percentage of between 15% and 25%.</p> <p>(Main Board Rule 8.08)</p>		
Spread of shareholders	<p>The equity securities in the hands of the public should be held among at least 300 holders (if qualifying under the Profit test or Market Cap/ Revenue/ Cashflow test) and 1,000 holders (if qualifying under the Market Cap/ Revenue test) (Main Board Rule 8.08(2)).</p>		

	*No more than 50% of the securities in public hands at the time of listing can be beneficially owned by the 3 largest public shareholders (Main Board Rule 8.08(3))
Underwriting arrangement	Public tranche must be fully underwritten.
Offering mechanism	There are specific restrictions on the basis of allocation within the public subscription tranche and the claw back mechanism between the placing tranche and the public subscription tranche in the event of over-subscription. A new applicant may not list only by way of placing if there is likely to be significant public demand for its securities (Practice Note 18 to the Main Board Rules).
Appointment of sponsor	A new applicant must appoint a sponsor to assist with its listing application. (Main Board Rule 3A.02) A new applicant and its directors must assist the sponsor to perform its role. (Main Board Rule 3A.05)
B: Sponsors	
Independence of sponsors	At least one of the new applicant's sponsors must be independent from the new applicant. A sponsor is not independent if, inter alia, the sponsor group holds, directly or indirectly, more than 5% of the issued share capital of the new applicant, except that the holding arises as a result of an underwriting obligation.
C: Content of listing documents	
Statement of business objectives	The new applicant must provide information on its general business trend, financial and trading prospects (Appendix 1A to the Main Board Rules).
Use of proceeds	The new applicant must disclose details of its intended use of proceeds (Appendix 1A to Main Board Rules).
Profit forecast	Profit forecast is not compulsory. (Main Board Rules 11.16 to 11.19)
Accountants' report	To cover 3 financial years except for exempted companies (Main Board Rule 4.04).

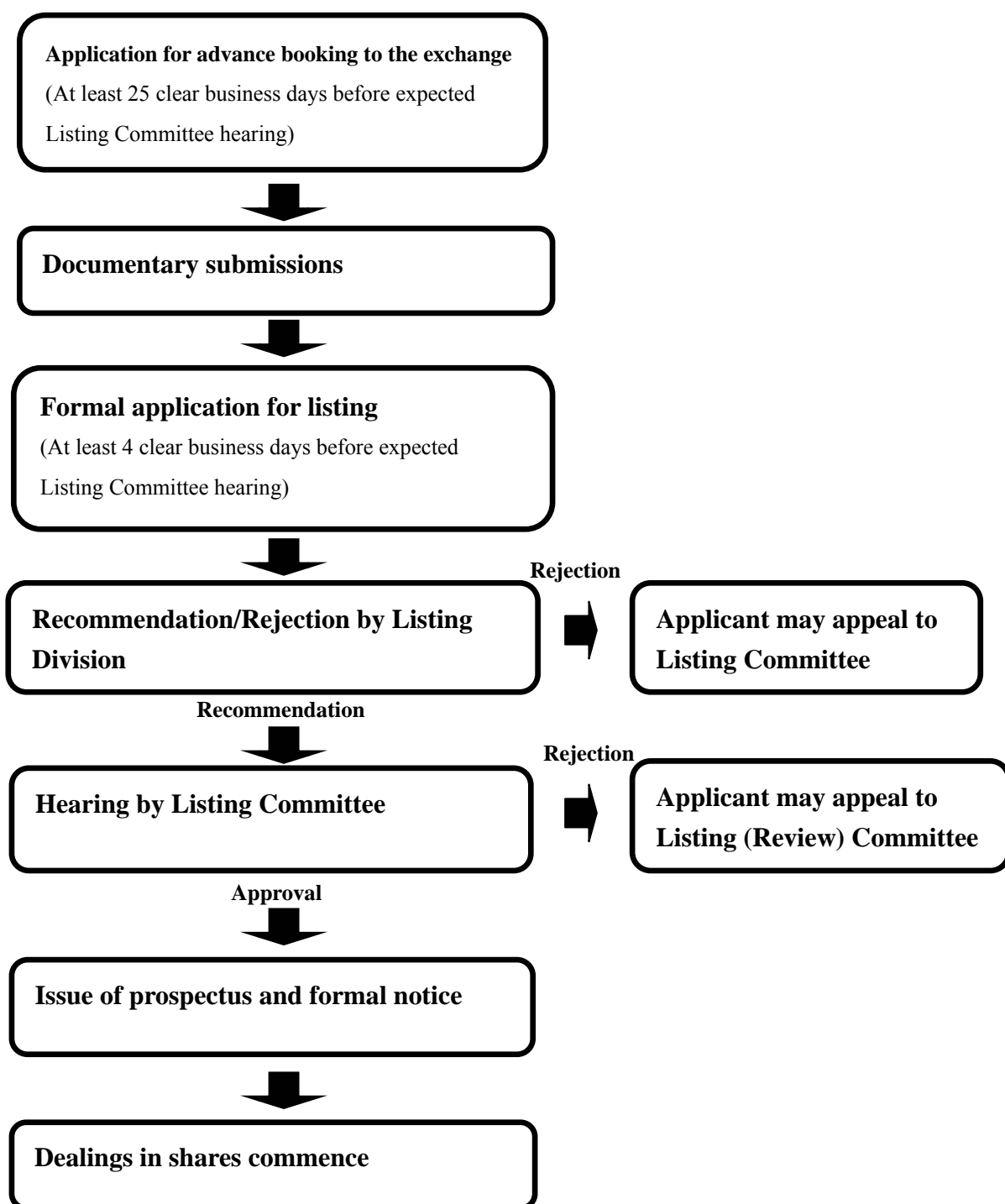
D: Moratorium	
In respect of controlling shareholders	<p>Any person regarded as a controlling shareholder at the time of listing shall not:</p> <p>1) dispose of his shares in the listed issuer in the period commencing on the date by reference to which disclosure of the shareholding of the controlling shareholder is made in the listing document and ending on the date which is six months from the date on which dealings in the securities of a new applicant commence on the Exchange; or</p> <p>2) dispose of his interest in the issuer if such disposal would result in him ceasing to be a controlling shareholder in the period of six months commencing on the date on which the period referred to the above expires.</p> <p>(Main Board Rule 10.07)</p>
Restrictions on the issue of new shares	<p>The Exchange does not normally permit further issues of shares or securities convertible into equity securities of a listed issuer within 6 months of listing.</p>

Source: HKEx: Listing in Hong Kong: A Quality Market, July 2008;

Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd.,

(Rules and Guidelines, Listing Rules (Main Board), Updated: 1 January 2009, Update No.90)

Figure 10 Flow Chart of the Main Board Listing Procedures



Source: HKEx: Listing in Hong Kong: A Quality Market, July 2008

The cost of listing of the stock exchanges is also one of the criteria for companies around the world to consider having their companies listed. To compare the listing fees of Hong Kong Stock Exchanges with that of London Stock Exchange and New York Stock Exchange, the two main stock exchanges, and Singapore Stock Exchange, which is Hong Kong's major competitor in Asia, Table 11 shows the fees charged by these four stock exchanges.

Table 11 Fees Charged by Selective Stock Exchanges

	Hong Kong Main Board	Singapore Main Board	London Main Board¹	New York Stock Exchange
Listing Fee	HK\$150,000 to 650,000	S\$50,000 to 200,000	£5,615 to 280,680	US\$150,000 to 250,000
	Basis of calculation:			
	Monetary value of equity securities of the company to be listed	Market value of a unit of security based on issue price	Market capitalization	Number of shares issued
Annual Listing Fee	HK\$145,000 to 1,188,000	S\$25,000 to 100,000	£3,695 to 6,417 for UK companies; £5,670 to 17,020 for foreign companies	Capped at US\$500,000
	Basis of calculation:			
	Nominal value of the securities to be listed	Market closing price of the security	Market capitalization	Number of shares issued and outstanding, including treasury stock and restricted stock

Note: 1. 17.5% VAT applicable to UK companies.

Source: Bauhinia Foundation Research Centre: Hong Kong as a Preferred IPO Hub....Are We on the Right Track? April 2008.

3.5 Methods of Listing

Referring to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Main Board Rules”), Chapter 7 of the Main Board Rules is the “Methods of Listing”, which describes clearly various methods of listing in Hong Kong, namely offer for subscription, offer for sale, placing, introduction, rights issue, open offer, capitalization issue, consideration issue, exchange of or substitution for or conversion of securities, exercising of options or warrants and the transfer of listing from GEM. As the scope of this paper is limited to the study on IPO market, I will discuss briefly only four types of listing method pertaining to initial public offerings: offer for subscription, offer for sale, offer for placing and introduction. A comparison among the four types of listing method is summarized in Table 12.

Table 12 Comparison of the Four Types of Listing Method

	Issuance of new shares	Funds raised for	Increase of equity base of the company	Dilution of the shareholdings of the existing owners
Offer for subscription	Yes (to public)	Company	Yes	Yes
Offer for sale	Yes (to public)	Existing shareholders	No	No
Offer for placing	Yes (to private investors)	Company	Yes	Yes
Introduction	No	N/A	No	No

Firstly, an offer for subscription is an offer to the public by an issuer of its own securities for subscription. This involves the issuance of new shares to the public and the funds raised are for the company. Since additional new shares are issued, the equity base of the company will be broadened and thus diluting the shareholdings of

the existing shareholders. Secondly, on the contrary to an offer for subscription, an offer for sale is an offer to the public by the shareholders of securities already in issue. In addition, as no new shares are issued and, therefore, it will not affect the equity base of the company nor cause dilution of the shareholdings of the existing shareholders. Thirdly, an offer for placing is the placement of newly issued securities to private investors. As stipulated in the Main Board Rules (Practice Note 18), a new applicant may not list only by way of placing if there is likely to be significant public demand for its securities. Finally, an introduction is an application for listing of securities already in issue where no marketing arrangements are required and it will normally be appropriate for companies which are already listed on another stock exchange and seek a secondary listing. No fund-raising is involved for this method of listing. Table 13 shows that equity funds raised by listing method from 1993 to 2007.

Table 13 Funds Raised by Listing Method from 1993 to 2007¹¹ (HKD billion)

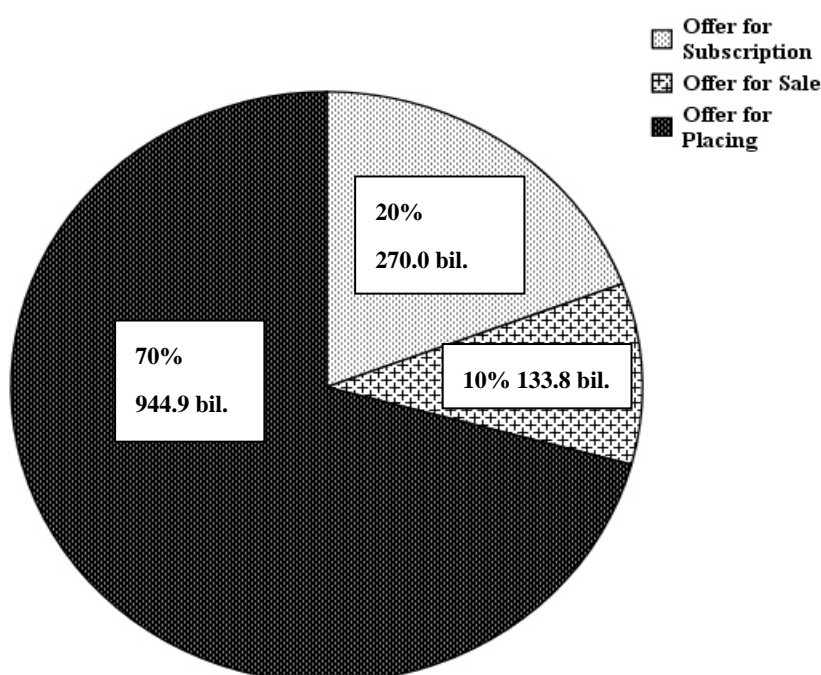
Years	Offer for Subscription	Offer for Placing	Offer for Sale	Total
1993	15.15	11.06	2.97	29.18
1994	8.80	8.31	0.25	17.36
1995	2.56	5.26	0.29	8.11
1996	7.25	21.50	2.47	31.22
1997	18.51	63.02	0.12	81.65
1998	3.68	2.14	0.14	5.96
1999	2.90	13.95	0.29	17.14
2000	12.59	119.05	0.48	132.11
2001	2.32	20.54	2.85	25.72
2002	4.18	24.95	22.86	51.98
2003	14.62	39.24	5.28	59.15
2004	21.94	53.45	21.77	97.16
2005	18.61	140.20	6.84	165.66
2006	48.33	252.19	33.33	333.85
2007	88.56	170.03	33.85	292.44
Total	270.0	944.9	133.8	1348.7

Source: HKEx Fact Book

¹¹ Since the GEM was introduced in 1999, the figures from 1999 onwards were calculated by combining the Main Board and the GEM.

In Hong Kong, the majority of the funds raised by companies listed during 1993 to 2007 were through offer for placing. During the past fifteen years, the accumulated fund raised by the listing method of offer for subscription, placing and sale were HKD270.0 billion, HKD944.9 billion and HKD133.8 billion, accounting for 20%, 70% and 10% respectively. Figure 11 indicates the distribution of accumulated funds raised by listing method.

Figure 11 Distribution of Accumulated Funds Raised by Listing Method from 1993 to 2007



With regard to GEM, a salient feature is that most companies raised funds through offer for placing. This is because of the “high risk” business nature of the companies listed on the GEM. Of the accumulated funds of HKD36.7 billion raised from 1999 to 2007, a total of HKD31.6 billion, accounting for 86% of the accumulated funds, was raised through offer for placing with the institutional investors and was higher than the percentage of 70% of the Main Board.

3.6 Subscription for IPO shares and Methods of Allotment

In June 1998, the Stock Exchange of Hong Kong introduced Practice Note 18 (PN 18) into the Listing Rules to reflect its view on the issue of significant oversubscription of IPO shares. A new issue of shares is allowed to be allocated by public subscription and placing. However, placing is permitted on the condition that there is not likely to be significant public demand for the securities and a key factor for such a determination is the size of the offering. Where an IPO involves a placing tranche and public subscription tranche of securities, certain procedures should be complied. For the part of subscription tranche, paragraph of 3.1 of PN 18 to the Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong states clearly that:

The total numbers of securities available for public subscription are to be divided equally into pools: pool A and pool B. The securities in pool A should be allocated on an equitable basis to applicants who have applied for securities in the value of HK\$5 million or less. The securities in pool B should be allocated on an equitable basis to applicants who have applied for securities in the value of more than HK\$5 million and up to the value of pool B. Where one of the pools is undersubscribed, the surplus securities should be transferred to satisfy demand in the other pool and be allocated accordingly. (Practice Note 18 of Listing Rules, para. 3.1)

In addition, as the interests of Hong Kong retail investors should be taken care of, a clawback mechanism is designed. This mechanism is a structure providing a benchmark minimum allocation to the subscription tranche for all IPOs. It is to balance between ensuring a sufficient supply of shares (to satisfy the demand of Hong Kong retail investors at IPOs), and allowing issuers and underwriters to decide on their own offer structures. Where an IPO includes both a placing tranche and a public subscription tranche, the minimum allocation of shares to the subscription tranche is stipulated in the paragraph 4.2 of the PN 18. An initial allocation of 10% of the shares should be offered in the IPO and a clawback mechanism that increases the number of shares to 30% when the total demand for shares in the subscription tranche is 15 times but less than 50 times the initial allocation and so on, which is tabulated as shown below.

Table 14 The Development of the Clawback Structure for Allocation of Shares to the Public Subscription Tranche

	Offer size (HKD billion)	Public allocation % <i>versus</i> the number of times (x) of oversubscription in the public subscription			
		Initial	15x to <50x	50x to <100x	>100x
PN18 requirements ¹ (Effective from June 1998)	Not specified	10%	30%	40%	50%
Typical PN 18 Waiver ² (Effective from October 2005)	10	5%	7.5%	10%	20%
Modified PN 18 Waiver ³	10	10%	15%	17.5%	20%
Modified PN 18 Waiver ²	Less than 10	15%	* $\geq 10x$: 17.5%; $\geq 20x$: 20%; $\geq 40x$: a range from not lower than 20% to not higher than 40%		

Source:

1. Practice Note 18 to the Rules Governing the Listing of Securities issued pursuant to rule 1.06 of the Exchange Listing Rules: Initial Public Offer of Securities, 26th June, 1998.
2. HKEx Listing Decision: Cite as HKEx-LD60-1, May 2008.
3. HKEx Listing Decision: Cite as HKEx-LD60-2, May 2008.

However, since the introduction of PN 18, for some offerings with smaller size of funds raised, the issuers were granted PN 18 Waivers regarding their strict compliance of the clawback mechanism. As a result, in October 2005, the application of the clawback mechanism under PN 18 was reviewed and certain typical parameters were generalized for granting PN 18 Waivers, which was referred as Typical PN 18 Waiver as shown in the above table. As we can notice from the table, provided that offerings with a size of over HKD10 billion, the issuers were granted the Typical PN 18 Waiver with a lower minimum share allocation percentage to public subscription tranche. For example, if an

issuer was granted the Typical PN 18, an initial allocation of 5% instead of 10% of the shares will be offered in the IPO. Later, in May 2008, having considered the fast-changing IPO market condition, the Exchange made the decision that it was no longer appropriate to set a fixed value for the purposes of determining the trigger points for oversubscription clawback and it will assess every application for a waiver on a case by case basis. However, some guidelines were provided, such as for the interests of Hong Kong retail investors, availability of earlier trigger points for oversubscription clawback, and of more share allocations to local retail investors than a Typical PN 18 Waiver.

According to the HKEx (2007), during 2002 to 2006, the subscription rate of IPOs on the Main Board was greater than that on the GEM (an average of 93 times versus 49 times); the average subscription rate of Mainland-related companies was higher than that of non-Mainland-related companies (an average of 127 times versus 57 times). These data indicated that Mainland-related companies were more attractive to the public than non-Mainland-related companies. Table 15 gives the top ten IPOs with the largest subscription rates from 2002 to 2007. Nine out of the ten most popular IPOs were Mainland-related companies, with Tianjin Port Development Holdings Ltd having the largest subscription rate of 1,703 times.

Table 15 Top 10 IPOs with the Largest Subscription Rates from 2002 to 2007

Rank	Stock Code	Stock Name	Listing Date	Subscription Rate
1	03382	Tianjin Port Development Holdings Ltd [#]	24 May 2006	1,703
2	00904	China Green (Holdings) Ltd [^]	13 Jan 2004	1,603
3	00999	I.T Ltd	4 Mar 2005	969
4	01886	China Huiyuan Juice Group Ltd [^]	23 Feb 2007	938
5	02338	Weichai Power Co. Ltd*	11 Mar 2004	928
6	03938	Samling Global Ltd	7 Mar 2007	923
7	03800	GCL-Poly Energy Holdings Ltd [^]	13 Nov 2007	905
8	03868	Qunxing Paper Holdings Co. Ltd [^]	2 Oct 2007	858
9	02880	Dalian Port (PDA) Co. Ltd*	28 Apr 2006	851
10	02899	Fujian Zijin Mining Industry Co. Ltd*	23 Dec 2003	744

Note: * H-share companies; # Red-chip companies; ^ Mainland private enterprises

Source: HKEx Fact Book

Facing such a high oversubscription rate, each new listed company has its own basis of allotment. Table 16 illustrates three examples of new listed companies with the information of their bases of allotment in the period between October 2006 and September 2007.

Table 16 Bases of Allotment of Selected Three New Listed Companies

Company	China Communications Construction Company Limited	Fosun International Limited	Industrial and Commercial Bank of China Limited
Listing date	2006/12/15	2007/07/16	2006/10/27
Funds raised (HKD million)	18,515.00	13,268.13	124,947.93
Subscription rate (times)	219.97	233.00	75.74
No. of shares applied for	1000	500	1000
No. of valid applications	140,023	218,216	282,257
Basis of allotment	1000	500	1000
Approximately percentage allotted of the total no. of shares applied for (%)	50	100	70
Offer price (HKD)	4.6	9.23	3.07
Amount invested for one lot	4600	4615	3070
First day closing price (HKD)	6.33	10.38	3.36
First day profit (HKD)	1730	575	290
First day return (%)	37.61	12.46	9.45

Source: Prospectuses and announcement of allotment results of the companies.

As indicated in the above table, Fosun International Limited had an oversubscription rate of 233 times and had attracted 218,216 applications of one lot only (500 shares per lot). All of applicants applying for one lot could obtain one lot each. As for the Industrial and Commercial Bank of China Limited and the China Communications Construction Company Limited, albeit not 100%, the percentage allotted of the total number of shares was as high as approximately 70% and 50% respectively. Considering the basis of allotment of some new listed companies with high amount of capital raised, together with the high first day return, the phenomenon of the prosperous IPO activities attracting more than half of the respondents subscribing for IPO shares could be partly explained.

3.7 Price Performance of IPOs

Over the years, a substantial body of research has been conducted which focuses on the price performance of IPOs including initial underpricing of IPOs and long-run underperformance of IPOs.¹² Conducting research on the area of IPO underpricing has been very fruitful. There are numerous models of IPO underpricing (Tinic, 1988; Ritter and Welch, 2002; Loughran and Ritter, 2002; Brau and Fawcett, 2006). When firms go public, they tend to underprice to compensate for the uninformed small investors¹³ (Rock's 1986) and/or to cultivate a good impression of the firm (Alien and Faulhaber, 1989). No matter what strategy firms are employing, the behavior of investors plays an important role. Eng and Shan (2000) investigated the impact of underpricing on the decision of both small and large investors in purchasing IPO shares. They found that large investors do consider underpricing in their demand for IPO shares, but small investors seem to direct their demand towards issues other than fundamental value. Cornelli, Goldreich and Ljungqvist (2006) examined whether irrational behavior among small investors drives post-IPO prices. They reported that larger investors choose to resell their allocated IPO shares whereas small investors are overoptimistic. Ritter and Welch (2002) argue that by using the asymmetric information models to explain the feature of underpricing is overemphasized. They believe that there is no simple dominant theoretical cause for underpricing.

Regarding the area of long-run performance, Ritter and Welch (2002) state that there is no reliable relationship between short-run underpricing and long-run performance. However, Ljungqvist, Nanda and Singh (2006) claim to solve the apparent paradox that underpricing and long-run underperformance can coexist. They show that the selling policy of staggered sales can be implemented by allocating the IPO shares to cooperative regular (institutional) investors who hold inventory for resale in the aftermarket. Therefore, IPO underpricing compensates the regular investors for the possible risk of holding inventory. In addition, by using actual when-issued trades made by a sample of clients at a large German retail broker during 1999 and 2000,

¹² For details, see Ritter and Welch (2002) and Varshney and Robinson (2004).

¹³ Most of the literatures use the term small /retail/individual investors to distinguish from another group of large/regular/institutional investors.

Dorn (2007) suggests that sentiment drives the retail demand for IPOs. He concludes that IPOs that are aggressively bought by individuals in the when-issued market exhibit high first-day returns as well as poor aftermarket returns relative to benchmarks of similar stocks. Using the data in the period from 1993 to 1997 in Hong Kong stock market, Agarwal, Liu and Rhee (2003) find a strong relationship between investors' demand and the short- and long-run post-issue performance of IPOs. They state that the IPOs with high investor demand have large positive initial returns but negative longer-run excess returns, while the IPOs with low investor demand have negative initial returns but positive longer-run excess returns. They further believe that investor demand for an IPO is largely driven by investors' overreaction to the information about the IPO prospectus prior to offerings.

The phenomenon of IPO underpricing always occurs all over the world¹⁴. Referring to Hong Kong, as early as in 1985, studies found that IPO market always shows high initial returns. Table 17 summarizes the research results on levels of underpricing in Hong Kong.

Table 17 Summary Review of the Levels of Underpricing in Hong Kong

	No. of Issues	Study Period	Levels of Underpricing (%)
Dawson and Hiraki (1985)	31	1979-84	10.9
Dawson (1987)	21	1978-83	13.8
McGuinness (1993)	92	1980-90	16.6
Aggarwal, Liu and Rhee (2003)	256	1993-97	20.8
SFC (2007)	64	2005	4.0
	59	2006	26.0
SFC (2008)	80	2007	23.0
HKEx ¹ (2007)	296	2002-05	N/A

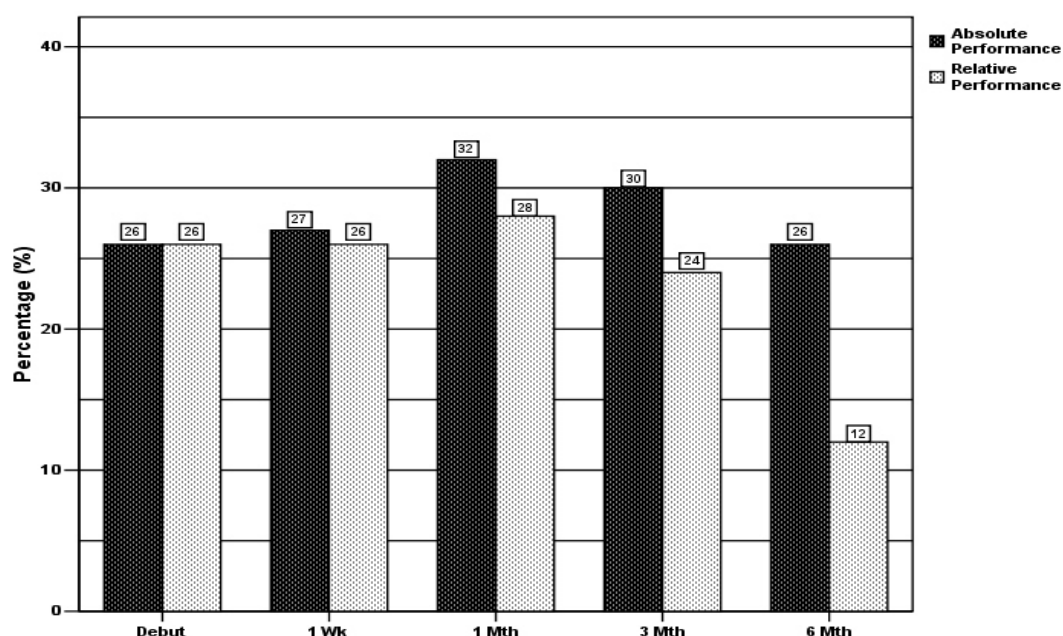
Note: 1. This paper investigates the percentages of the share offers showing underpricing, pricing just right and overpricing by listing board and stock type only but levels of underpricing is not provided.

Source: McGuinness (1999, p.155, Table 5.2); SFC Research Paper No.35 (March 2007 and 39 (February 2008); HKEx (Exchange, January 2007, p.49-66)

¹⁴ See studies such as Ibbotson, 1975; Ritter, 1984; Loughran, Ritter and Rydqvist, 1994; Ljungqvist and Wilhelm, 2002; Jelic, Saadouni and Briston, 2001; Sullivan and Unite, 2001.

Recently, there were 59 IPOs in 2006 and the average gain was 26% on debut and remained unchanged six months later after their listings¹⁵. Comparing the absolute performance of IPOs with the performance of the Hang Seng Index, the average gain was only 12% higher than that of the Hang Seng Index six months after their listings (SFC, 2007). Figure 12 shows the absolute and relative IPO underpricing and long term price performance in 2006.

Figure 12 Absolute and Relative IPO Underpricing and Long Run Price Performance in 2006

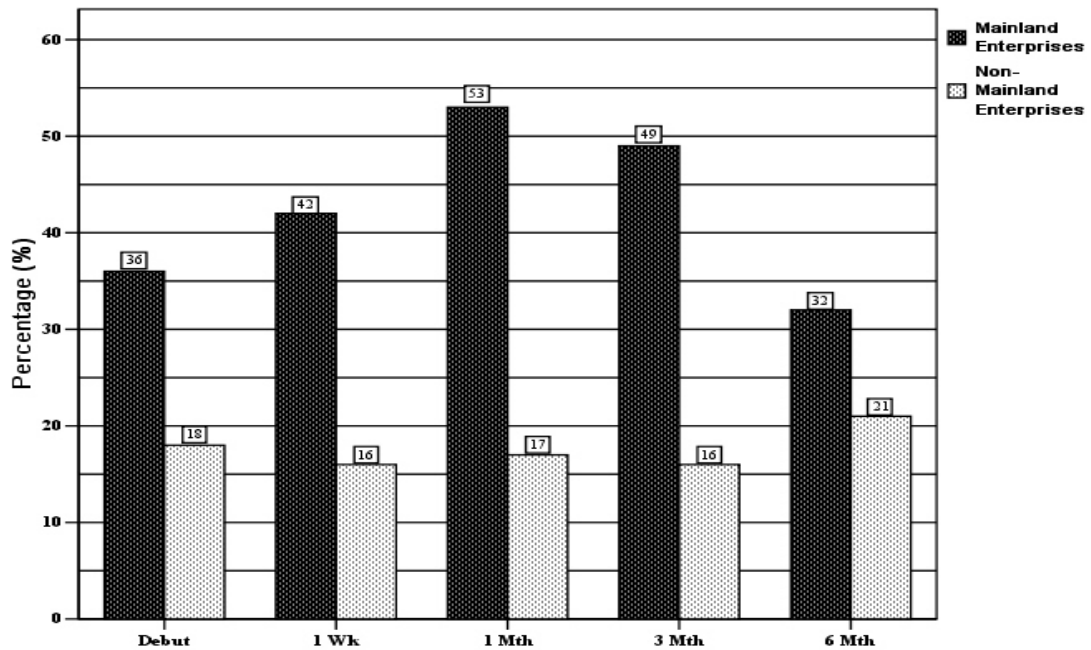


Source: SFC, 2007

In particular, regarding the price performance of IPOs of Mainland enterprises, investors were interested in subscribing for IPOs of Mainland enterprises due to the buoyant economic environment in the Mainland in 2006. As indicated in Figure 13, out of the 59 IPOs, there were 25 Mainland enterprises, for which the average gain was 36% on debut and 32% six months after listings. For the non-Mainland enterprises, the corresponding figures were 18% and 21% respectively.

¹⁵Only 31 IPOs had 6 months history at the time when the research was conducted.

Figure 13 IPO Underpricing and Long Run Price Performance for Mainland Enterprises and non-Mainland Enterprises in 2006



Source: SFC, 2007

Furthermore, in 2007, there were 80 IPOs¹⁶ and the closing prices on the first day of listing were 23% on average above the IPO prices. The individual performance of these IPOs ranged from -19.7% of Pacific Online Limited to 192.59% of Alibaba.com. The first trading day closing prices and the returns of the new listed companies in 2006 and 2007 are presented in Appendix A. Considering the best scenario of Alibaba.com, Table 18 illustrates the various numbers of shares investors had applied for IPO shares and the possible returns in each case of the Alibaba.com listed on 6th November, 2007.

¹⁶ There were four companies listed by introduction and the prices of only 80 newly listed companies were studied.

Table 18 Analysis of Investment Size and Possible Returns of Alibaba.com

Company:			Alibaba.com Limited				
Offer price:			HKD13.50				
First trading day closing price:			HKD39.50 (+192.59%)				
Subscription rate: 257 times			Funds raised: HKD13,129.82 million				
(in HKD)							
No. of shares applied for	No. of valid applications	Shares allotted	Amount invested	Interest cost / opportunity cost ¹⁷	First day profit excluding interest cost	First day profit	Break-even ¹⁸ (%)
500	278,404	6% ¹⁹	6,750	59	13,000	12,941	0.9
10,000	25,623	500	135,000	235	13,000	12,765	3.5
80,000	2,881	1,000	1,080,000	1,529	26,000	24,471	11.3
300,000	2,135	1,500	4,050,000	5,598	39,000	33,402	27.6
64,417,500	54	251,000 ²⁰	869,636,250	1,191,333	6,526,000	5,334,667	35.2

Source: Announcement of allotment results of Alibaba.com

The above table demonstrates that an investment amount of as high as HKD135,000 and HKD1,080,000 were required to secure one lot of 500 shares and two lots of 1,000 shares for Alibaba.com respectively. However, by using a margin account, one could use his/her own 10% of the money and borrow another 90% of money from the brokerage to subscribe for the IPO shares. As a result, the investors could take advantage of the hot market in order to generate exceptional high returns.

¹⁷ Assume the interest rate was 5% for the margin financing by brokerages or banks and the investment amount would have to be repaid within 10 days, then the interest cost would be calculated by adding the total interest involved in this period and HKD 50.0 for the handling cost of the service provided by brokerages or banks. Although the money invested could be one's own saving, the calculation of the opportunity cost of money invested could also be treated the same as the interest cost.

¹⁸ The percentage was calculated as the minimum percentage that the first trading day closing price should be above the offer price in order to offset the corresponding interest cost.

¹⁹ Only 16,704 out of 278,404 applications can be allotted 500 shares, i.e. approximately 6%.

²⁰ The exact number of shares allotted was 251,000 shares plus 33 out of 54 to receive additional 500 shares.

Nevertheless, the only risk observed was that the first day price percentage increase should be more than a certain percentage as calculated in the table, which were increasing against the number of shares applied. Considering the high first day closing price of Alibaba.com (HKD39.5), the percentage increase was 192.59%, which was comfortably higher than all the percentages indicated in the table.

With regard to the Pacific Online Limited, it was a relatively small size company raising capital of only HKD940.5 million and its oversubscription rate was 11.2 times reflecting the poor demand for its shares. Due to its small size, few brokerages and banks would like to offer margin financing for this issue and investors would prefer applying for just a small number of shares or even not to apply. As a result, the loss was quite limited. Besides the Pacific Online Limited, another worse scenario could be demonstrated by the performance of Sinotruk (Hong Kong) Limited listed on 28th November, 2007. Table 19 indicates the relationship between various investment size and possible returns of Sinotruk (Hong Kong) Limited.

**Table 19 Analysis of Investment Size and Possible Returns of
Sinotruk (Hong Kong) Limited**

Company: Sinotruk (Hong Kong) Limited							
Listing day: 2007/11/28							
Offer price: HKD12.88			First trading day closing price: HKD10.84 (- 15.84%)				
Subscription rate: 311 times			Funds raised: HKD9,984.56 million				
(in HKD)							
No. of shares applied for	No. of valid applications	Shares allotted	Amount invested	Interest cost / opportunity cost	First day profit excluding interest cost	First day profit	Break-even (%)
500	243,513	10% ²¹	6,440	59	(1,020)	(1,079)	0.9
5,500	1,679	500	70,840	147	(1,020)	(1,167)	2.3
15,000	13,047	1,000	193,200	315	(2,040)	(2,355)	2.4
70,000	1,084	1,500	901,600	1,285	(3,060)	(4,345)	6.7
100,000	6,296	2,000	1,288,000	1,814	(4,080)	(5,894)	7.0
200,000	2,494	2,500	2,576,000	3,579	(5,100)	(8,679)	11.1
250,000	631	3,000	3,220,000	4,461	(6,120)	(10,581)	11.5
300,000	1,255	3,500	3,864,000	5,343	(7,140)	(12,483)	11.9
350,000	577	4,000	4,508,000	6,225	(8,160)	(14,385)	12.1
35,100,000	63	363,500 ²²	452,088,000	619,349	(741,540)	(1,360,889)	13.2

Source: Announcement of allotment results of Sinotruk (Hong Kong) Limited.

²¹ Only 24,351 out of 243,513 applications can be allotted 500 shares, i.e. approximately 10%.

²² The exact number of shares allotted was 363,500 shares plus 41 out of 63 to receive additional 500 shares.

The above table indicates that an investment amount of as high as HKD193,200 and HKD901,600 were required to secure 1000 shares and 1,500 shares for Sinotruk (Hong Kong) Limited respectively. Considering the first trading day price drop of -15.84%, the total loss including the interest cost were HKD2,355 and HKD4,345 for having been allotted 1,000 shares and 1,500 shares respectively.

4. Conclusion

This paper attempts to investigate the recent developments in the Hong Kong IPO market including the recent growth of the number of IPOs, the growth of the new capital raised and the growth of the new capital raised by IPOs with worldwide comparisons as an attempt to show the progress Hong Kong has made and its position in the global arena to attract new capital. It also examines the listing rules and procedures, the methods of listing, oversubscription and methods of allotment, and the price performance of IPOs.

As an international financial centre, Hong Kong is one of the fast-growing stock markets for IPO fund-raising and the Hong Kong stock exchange has become the world's second largest market for IPO fund-raising after London in 2006. Due to the lucrative IPO investment, news reports about investors rushing to collect subscription forms for IPO shares resulting in long queues near the banks were not uncommon. The closing prices on the first day of listing were 26% in 2006 and 23% in 2007. IPO market fever was spreading to all the general public. Lee, Wong & Yuen (2008) analyzed the data from surveys of 3,210 respondents in Hong Kong and contributed to the understanding of the determinants of the general public's behavior in applying for IPO shares. The empirical result shows that the 'close relationship' of family members and friends in Chinese culture will affect an investor's decision to apply for IPO shares and thus reinforces the so-called 'herd movement'. They believe that, based on the advantages of eIPO (convenience, efficiency and cost-effectiveness), eIPO method of subscription will become more popular, and the IPO market will continue to grow and flourish. In consideration of the fact that, during 2002 to 2007,

the top 10 largest IPOs were all Mainland related companies, Hong Kong will maintain its status as a prime fund-raising platform for Mainland enterprises. To further strengthen its position as an international fund-raising centre, Hong Kong can put more effort into attracting listings of Taiwanese and overseas companies. However, Hong Kong will face many challenges ahead, especially the rise of Shanghai as an international financial centre in the near future as a plan unveiled by the Mainland government on 29 April 2009 for establishing Shanghai as an international financial centre by 2020. Therefore, for further study, one can investigate the challenges and opportunities faced by the Hong Kong IPO market.

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Appendix A: First Trading Day Returns of New Listed Companies in 2006 and 2007								
Year 2006								
		H	Offer	Funds raised		Subscription	First day	
Code	Company	Share	price	(in million)	Listing date	rate (times)	closing price	Return
02398	Good Friend International Holdings Inc.		1.13	79.10	2006/01/11	16.03	1.23	8.85
03330	Lingbao Gold Co. Ltd.	x	3.33	989.92	2006/01/12	731.00	4.43	33.03
00919	Modern Beauty Salon Holdings Ltd.		1.00	180.00	2006/02/09	9.10	0.92	(8.00)
02788	Yorkey Optical International (Cayman) Ltd		2.20	506.00	2006/02/10	217.00	3.58	62.73
00502	Pan Sino International Holding Limited		I	N/A	2006/03/01	N/A	N/A	N/A
00457	O2Micro International Limited		I	N/A	2006/03/02	N/A	N/A	N/A
02689	Nine Dragons Paper (Holdings) Limited		3.40	3,910.00	2006/03/03	520.00	4.78	40.59
00402	Ming Hing Holdings Limited		0.72	57.60	2006/03/14	122.00	0.95	31.94
03308	Golden Eagle Retail Group Limited		3.15	1,630.13	2006/03/21	307.00	3.55	12.70
03323	China National Building Material Company Limited	x	2.75	2,068.92	2006/03/23	536.60	3.33	21.09
00707	Co-Prosperity Holdings Limited		1.16	232.00	2006/03/30	115.50	1.39	19.83
02626	Hunan Nonferrous Metals Corporation Limited	x	1.65	2,040.91	2006/03/31	701.00	2.88	74.55
03355	Advanced Semiconductor Manufacturing Corporation Limited	x	1.60	748.26	2006/04/07	12.93	2.12	32.50
02345	Shanghai Prime Machinery Company Limited	x	2.10	1,450.36	2006/04/27	513.00	3.00	42.86
02880	Dalian Port (PDA) Company Limited	x	2.58	2,487.45	2006/04/28	851.00	4.32	67.77
03335	DBA Telecommunication (Asia) Holdings		1.26	362.25	2006/05/11	293.60	1.69	34.13
03382	Tianjin Port Development Holdings Ltd		1.88	1,249.64	2006/05/24	1,703.00	2.38	26.60
03988	Bank of China Limited	x	2.95	86,741.44	2006/06/01	70.00	3.38	14.58
00474	Winbox International (Holdings) Ltd		0.55	11.00	2006/06/06	4.10	0.51	(7.27)
00527	Galaxy Semi-Conductor Holdings Limited		0.86	86.00	2006/06/09	23.93	0.89	3.49
00549	Jilin Qifeng Chemical Fiber Co., Ltd	x	1.69	399.26	2006/06/21	1.40	1.36	(19.53)

		H	Offer	Funds raised	Subscription	First day		
Code	Company	Share	price	(in million)	Listing date	rate (times)	closing price	Return
00515	TC Interconnect Holdings Limited		1.00	60.00	2006/06/23	3.67	1.03	3.00
00352	Fortune Sun (China) Holdings Limited		1.06	74.50	2006/07/05	1.80	1.01	(4.72)
00813	Shimao Property Holdings Ltd		6.25	4,277.45	2006/07/05	0.54	6.60	5.60
03900	Greentown China Holdings Limited		8.22	3,069.15	2006/07/13	11.05	8.80	7.06
03989	Hembly International Holdings Limited		1.70	131.38	2006/07/13	1.24	1.87	10.00
03899	Enric Energy Equipment Holdings Limited		I	N/A	2006/07/20	N/A	N/A	N/A
03322	Win Hanverky Holdings Limited		2.28	786.60	2006/09/06	365.70	3.04	33.33
03303	Jutal Offshore Oil Services Limited		1.38	158.70	2006/09/21	246.00	2.05	48.55
03968	China Merchants Bank Co., Ltd.	x	8.55	20,691.00	2006/09/22	266.05	10.68	24.91
03983	China BlueChemical Ltd	x	1.90	3,059.00	2006/09/29	478.00	2.26	18.95
02700	Smart Union Group (Holdings) Limited		1.10	79.20	2006/09/29	43.30	1.09	(0.91)
00637	Lee Kee Holdings Limited		2.67	614.10	2006/10/04	266.00	2.88	7.87
00272	Shui On Land Limited		5.35	6,819.22	2006/10/04	11.91	5.90	10.28
00667	HannStar Board International Holdings Limited		1.77	604.01	2006/10/06	312.00	1.81	2.26
00320	Computime Group Limited		2.28	524.40	2006/10/09	682.00	2.61	14.47
00337	SPG Land (Holdings) Limited		4.78	1,374.25	2006/10/10	89.00	5.08	6.28
00558	L.K. Technology Holdings Limited		1.11	277.50	2006/10/16	15.10	1.12	0.90
03918	NagaCorp Ltd		1.43	822.25	2006/10/19	118.00	1.72	20.28
01398	Industrial and Commercial Bank of China	x	3.07	124,947.93	2006/10/27	75.74	3.52	14.66
00609	Tiande Chemical Holdings Ltd		1.02	102.00	2006/10/27	41.90	1.34	31.37
01888	Kingboard Laminates Holdings Limited		7.73	6,377.25	2006/12/07	142.70	8.93	15.52
00477	AUPU Group Holding Company Limited		1.23	288.56	2006/12/08	90.00	1.63	32.52
00552	China Communications Services Corporation Limited	x	2.20	3,266.97	2006/12/08	329.00	4.08	85.45
01818	Zhaojin Mining Industry Company Limited	x	12.68	2,519.71	2006/12/08	535.00	15.96	25.87
00528	Kingdom Holdings Limited		1.75	301.88	2006/12/12	28.00	2.29	30.86

		H	Offer	Funds raised		Subscription	First day	
Code	Company	Share	price	(in million)	Listing date	rate (times)	closing price	Return
01800	China Communications Construction Company Limited	x	4.60	18,515.00	2006/12/15	219.97	6.33	37.61
01868	Neo-Neon Holdings Limited		6.90	1,587.00	2006/12/15	48.00	8.96	29.86
02006	Shanghai Jin Jiang International Hotels (Group) Company Limited	x	2.20	2,783.00	2006/12/15	382.00	3.81	73.18
01388	Embry Holdings Limited		3.62	362.00	2006/12/18	83.60	5.10	40.88
01898	China Coal Energy Company Limited	x	4.05	15,119.99	2006/12/19	182.00	4.56	12.59
03898	Zhuzhou CSR Times Electric Co., Ltd.	x	5.30	2,197.61	2006/12/20	205.30	9.20	73.58
01399	SCUD Group Limited		2.02	603.98	2006/12/21	385.00	3.05	50.99
01899	Xingda International Holdings Limited		3.08	1,367.21	2006/12/21	99.50	3.51	13.96
01882	Haitian International Holdings Limited		3.95	1,576.05	2006/12/22	226.73	3.97	0.51
01389	The Ming An (Holdings) Company Limited		1.88	1,514.12	2006/12/22	539.68	2.54	35.11
08217	CMA Logistics Co., Ltd. (GEM)	x	2.70	148.50	2006/02/03	N/A	5.00	85.19
08247	Biosino Bio-Technology and Science Incorporation (GEM)	x	2.00	66.00	2006/02/27	N/A	2.70	35.00
08280	Xinjiang Tianye Water Saving Irrigation System Co. Ltd. (GEM)	x	1.18	238.83	2006/02/28	N/A	1.56	32.20
08331	Zhejiang Shibao Co. Ltd. (GEM)	x	1.50	130.07	2006/05/16	N/A	1.61	7.33
08245	Beijing Jingkelong Co. Ltd. (GEM)	x	4.50	683.10	2006/09/25	547.00	5.50	22.22
08241	Anhui Tianda Oil Pipe Co. Ltd. (GEM)	x	3.00	502.71	2006/12/01	N/A	3.60	20.00
						Year 2006	Average:	25.54

Year 2007								
		H	Offer	Funds raised		Subscription	First day	
Code	Company	Share	price	(in million)	Listing date	rate (times)	closing price	Return
01808	Tai-I International Holdings Limited		1.66	249.00	2007/01/11	105.68	1.64	(1.20)
01889	Wuyi International Pharmaceutical Company Limited		1.80	921.46	2007/02/01	161.00	1.96	8.89
03313	Meadville Holdings Limited		2.25	1,184.85	2007/02/02	163.00	2.31	2.67
00568	Shandong Molong Petroleum Machinery Company Limited	x	I	N/A	2007/02/07	N/A	N/A	N/A
00546	Fufeng Group Limited		2.23	1,025.80	2007/02/08	639.00	3.05	36.77
01383	Hong Long Holdings Limited		1.80	514.98	2007/02/22	169.00	2.23	23.89
01886	China Huiyuan Juice Group Limited		6.00	2,760.00	2007/02/23	938.00	9.97	66.17
01838	China Properties Group Limited		3.60	1,643.00	2007/02/23	9.03	3.49	(3.06)
03938	Samling Global Limited		2.08	2,511.60	2007/03/07	922.82	2.40	15.38
01862	Sino Gold Mining Limited		42.50	924.28	2007/03/16	5.58	39.40	(7.29)
01833	Intime Department Store (Group) Company Limited		5.39	2,789.33	2007/03/20	230.83	6.44	19.48
00606	China Agri-Industries Holdings Limited		3.72	3,591.99	2007/03/21	605.90	5.53	48.66
00538	Ajisen (China) Holdings Limited		5.47	1,887.15	2007/03/30	192.00	7.10	29.80
01883	CITIC 1616 Holdings Limited		2.58	2,420.83	2007/04/03	962.50	4.32	67.44
00475	Noble Jewelry Holdings Limited		1.50	134.55	2007/04/17	173.00	1.59	6.00
02007	Country Garden Holdings Company Limited		5.38	14,848.80	2007/04/20	255.70	7.27	35.13
00717	Emperor Capital Group Limited		0.38	121.08	2007/04/24	51.00	0.69	81.58
03993	China Molybdenum Co., Ltd.	x	6.80	8,105.33	2007/04/26	399.21	10.82	59.12
00998	China CITIC Bank Corporation Limited	x	5.86	32,923.24	2007/04/27	229.93	6.68	13.99
00469	Capxon International Electronic Company		0.93	196.42	2007/05/07	45.20	0.85	(8.60)
01382	Pacific Textiles Holdings Limited		5.35	1,916.55	2007/05/18	46.16	5.19	(2.99)
00602	Jiahua Stores Holdings Limited		1.04	299.00	2007/05/21	672.00	1.46	40.38

		H	Offer	Funds raised	Subscription	First day		
Code	Company	Share	price	(in million)	Listing date	rate (times)	closing price	Return
01880	Belle International Holdings Limited		6.20	9,955.09	2007/05/23	516.00	8.16	31.61
00811	Sichuan Xinhua Winshare Chainstore Co., Ltd.	x	5.80	2,330.21	2007/05/30	120.82	5.52	(4.83)
01386	Walker Group Holdings Limited		3.86	665.85	2007/06/07	592.90	4.51	16.84
01991	Ta Yang Group Holdings Ltd		3.50	700.00	2007/06/08	60.00	3.75	7.14
00819	Tianneng Power International Limited		1.92	576.00	2007/06/11	73.40	1.96	2.08
02382	Sunny Optical Technology (Group) Company		3.82	1,186.11	2007/06/15	291.60	4.01	4.97
03933	The United Laboratories International Holdings Limited		2.75	948.75	2007/06/15	26.87	3.61	31.27
00822	Ka Shui International Holdings Ltd		1.35	297.00	2007/06/27	12.43	1.26	(6.67)
00573	Tao Heung Holdings Limited		3.18	440.30	2007/06/29	118.80	3.25	2.20
03928	Zhengzhou Gas Company Limited	x	I	N/A	2007/06/29	N/A	N/A	N/A
01813	KWG Property Holding Limited		7.28	5,232.50	2007/07/03	227.00	7.84	7.69
00658	China High Speed Transmission Equipment Group Co., Ltd.		7.08	2,442.60	2007/07/04	692.00	14.00	97.74
01155	Centron Telecom International Holding Ltd.		3.55	971.64	2007/07/05	189.00	3.80	7.04
00722	Delta Networks, Inc.		4.50	1,622.88	2007/07/06	12.27	5.44	20.89
01836	Stella International Holdings Limited		15.50	3,475.88	2007/07/06	42.53	18.44	18.97
02020	ANTA Sports Products Limited		5.28	3,643.20	2007/07/10	183.00	7.51	42.23
01997	Regent Manner International Holdings Limited		1.68	420.00	2007/07/10	7.00	1.68	0.00
03331	Vinda International Holdings Limited		3.68	1,272.01	2007/07/10	115.00	5.12	39.13
00569	China Automation Group Limited		1.53	351.90	2007/07/12	54.00	2.68	75.16
00825	New World Department Store China Limited		5.80	2,710.02	2007/07/12	62.10	5.92	2.07
00656	Fosun International Limited		9.23	13,268.13	2007/07/16	233.00	10.38	12.46
01832	Times Ltd.		4.18	1,012.35	2007/07/16	38.88	4.74	13.40
00550	Recruit Holdings Limited		I	N/A	2007/07/23	N/A	N/A	N/A

		H	Offer	Funds raised	Subscription	First day		
Code	Company	Share	price	(in million)	Listing date	rate (times)	closing price	Return
00826	Tiangong International Company Limited		6.36	950.82	2007/07/26	668.50	11.56	81.76
00817	Franshion Properties (China) Limited		2.35	3,813.50	2007/08/17	170.00	2.18	(7.23)
03823	Tech Pro Technology Development Limited		1.30	195.00	2007/09/06	28.90	1.36	4.62
03889	Global Sweeteners Holdings Limited		2.04	703.80	2007/09/20	58.20	2.17	6.37
01393	Hidili Industry International Development		6.83	4,712.70	2007/09/21	670.00	12.14	77.75
03838	China Starch Holdings Limited		2.22	382.95	2007/09/27	139.00	2.23	0.45
03377	Sino-Ocean Land Holdings Limited		7.70	13,735.88	2007/09/28	206.00	11.00	42.86
03868	Qunxing Paper Holdings Company Limited		5.35	1,845.75	2007/10/02	858.00	8.57	60.19
03999	DaChan Food (Asia) Limited		2.90	929.92	2007/10/04	35.00	2.93	1.03
00410	SOHO China Limited		8.30	14,789.21	2007/10/08	169.00	9.54	14.94
03883	China Aoyuan Property Group Limited		5.20	4,186.00	2007/10/09	204.00	6.82	31.15
03888	Kingsoft Corporation Limited		3.60	883.22	2007/10/09	99.00	5.00	38.89
03818	China Dongxiang (Group) Co., Ltd.		3.98	6,293.38	2007/10/10	124.00	5.43	36.43
03998	Bosideng International Holdings Ltd		3.28	6,928.42	2007/10/11	69.00	3.41	3.96
03833	Xinjiang Xinxin Mining Industry Co., Ltd.	x	6.50	4,485.00	2007/10/12	475.00	14.24	119.08
01828	Dah Chong Hong Holdings Limited		5.88	4,593.46	2007/10/17	229.00	5.88	0.00
03828	Ming Fai International Holdings Limited		2.98	527.46	2007/11/02	42.30	2.80	(6.04)
01688	Alibaba.com Limited		13.50	13,129.82	2007/11/06	257.00	39.50	192.59
03800	GCL-Poly Energy Holdings Limited		4.10	1,357.92	2007/11/13	905.00	4.55	10.98
00672	Zhong An Real Estate Limited		6.67	3,621.81	2007/11/13	176.76	6.70	0.45
00033	Rainbow Brothers Holdings Ltd		1.50	75.00	2007/11/19	25.80	1.55	3.33
00806	Value Partners Group Limited		7.63	3,143.56	2007/11/22	110.00	7.63	0.00
00368	Sinotrans Shipping Limited		8.18	11,452.00	2007/11/23	251.00	7.12	(12.96)
03808	Sinotruk (Hong Kong) Limited		12.88	9,984.56	2007/11/28	311.00	10.84	(15.84)
00390	China Railway Group Limited	x	5.78	22,107.92	2007/12/07	209.00	7.35	27.16
00189	Dongyue Group Limited		2.16	1,131.03	2007/12/10	5.00	1.90	(12.04)
02002	China Sunshine Paper Holdings Company		6.00	645.00	2007/12/12	5.13	6.15	2.50

		H	Offer	Funds raised		Subscription	First day	
Code	Company	Share	price	(in million)	Listing date	rate (times)	closing price	Return
03337	Anton Oilfield Services Group		1.88	1,026.11	2007/12/14	15.00	1.63	(13.30)
00220	Uni-President China Holdings Ltd.		4.22	1,024.38	2007/12/17	4.56	4.74	12.32
00543	Pacific Online Limited		3.30	940.50	2007/12/18	11.20	2.65	(19.70)
00285	BYD Electronic (International) Company		10.75	6,689.14	2007/12/20	0.41	11.02	2.51
01893	China National Materials Co., Ltd.	x	4.50	4,821.59	2007/12/20	283.00	6.07	34.89
00422	Vietnam Manufacturing and Export Processing (Holdings) Limited		3.75	850.95	2007/12/20	2.90	3.16	(15.73)
00117	EYANG Holdings (Group) Co., Limited		1.30	137.15	2007/12/21	3.40	1.29	(0.77)
00556	Pan Asia Environmental Protection Group		2.80	560.00	2007/12/21	2.24	2.89	3.21
00839	Anhui Tianda Oil Pipe Company Limited		I	N/A	2007/12/24	N/A	N/A	N/A
00505	Xingye Copper International Group Limited		1.70	293.25	2007/12/27	5.60	3.30	94.12
08313	International Elite Ltd.		1.36	356.59	2007/10/16	N/A	1.90	39.71
08288	NetDragon Websoft Inc.		13.18	1,637.00	2007/11/02	N/A	16.48	25.04
						Year 2007	Average:	22.73

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