Cross-Border Listings Guide - Hong Kong Stock Exchange (GEM)

Overview of exchange

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# Overview of exchange

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The Stock Exchange of Hong Kong Limited, which is commonly referred to as HKSE or SEHK, is recognized worldwide as a premier securities exchange with access to abundant local and overseas funds and free flow of both capital and information. HKSE has a long-standing reputation as one of the most popular destinations for capital-raising among major financial markets.

With Hong Kong's close ties to Mainland China and other Asian economies, the HKSE is strategically placed to serve as an ideal platform for issuers to achieve exposure to the rapidly growing Mainland Chinese and other Asian markets. In addition, Hong Kong has a well-established legal system based on English common law, which provides companies with a strong and attractive foundation for capital raising and reinforces confidence for investors. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules) are comparable to international standards and demand from issuers a high level of corporate governance and transparency. Over the years, the Hong Kong government and regulators have sought ways to expand, diversify and internationalize the stock market by attracting more foreign companies of good quality to list in Hong Kong.

There are two boards on HKSE where issuers may list their securities:

The Main Board is a market for companies that meet the profit or other financial criteria of the HKSE. Companies can list either shares or depositary receipts, as a primary or secondary listing, on the Main Board.

The second board is the GEM (formerly known as the Growth Enterprise Market), which is a stand-alone market for small and mid-sized companies.

The HKSE does not specialize in any particular type of company, but instead encourages any company that meets its listing requirements to list in Hong Kong.

As at 31 December 2023, there was a total of 2,609 companies listed on HKSE (December 2022: 2,597), of which 2,283 companies are listed on Main Board (December 2022: 2,257) and 326 companies (December 2022: 340) are listed on GEM. This represents a slight increase of 1.15% in the total number of listed companies on HKSE, despite the minor 4.12% decrease in the number of GEM listed companies.

As at 31 December 2023, the Main Board and GEM had a total of 1,447 Mainland enterprises (December 2022: 1,409) (including H Share companies, Red Chip companies and Mainland private enterprises) and 1,162 domestic and foreign companies (December 2022: 1,188). In terms of market capitalization, Mainland enterprises constituted 76.5% as of 31 December 2023 and 76.9% as of 31 December 2022 respectively. It is not feasible to differentiate meaningfully between domestic and foreign companies listed on the HKSE because many domestic companies restructure themselves before listing and use foreign holding companies as their listing vehicles (e.g. investment holding companies incorporated in offshore tax havens like Cayman Islands, British Virgin Islands or Bermuda).

For the avoidance of doubt, H-Share companies refer to enterprises that are incorporated in Mainland China which are either controlled by Mainland Chinese Government entities or individuals. Red Chip companies refer to enterprises incorporated outside Mainland China and are controlled by Mainland Chinese Government entities. Mainland private enterprises refer to companies that are incorporated outside Mainland China and are controlled by Mainland Chinese individuals.

As of 31 December 2023, the aggregate market capitalization of Main Board and GEM was HK$31,039.1 billion (approximately US$3,969.90 billion), representing a 12.97% decrease from HK$35,666.8 billion (approximately US$4,561.78 billion) as of 31 December 2022. GEM's market capitalization was HK$53.62 billion (approximately US$6.86 billion), representing a 36.96% decrease from HK$85.05 billion (approximately US$10.88 billion) as of 31 December 2022.

In Hong Kong, two main regulators are involved in any proposed listing on the HKSE and post-listing compliance matters. They are the HKSE and the Securities and Futures Commission (SFC). The HKSE takes the leading role in regulating companies seeking a listing in Hong Kong and supervising their post-listing compliance requirements. The SFC performs a leading role in market regulation and certain areas of listing regulation.

Hong Kong operates a dual filing regime. HKSE is responsible for the day-to-day administration of all listing related matters while the SFC supervises and monitors the HKSE in its listing-related functions and responsibilities. As such, disclosure documents are required to be filed with both the HKSE and the SFC. HKSE is the frontline regulator and the primary point of contact for listed companies. HKSE passes information and materials submitted by listing applicants and listed companies to the SFC. The SFC may exercise its statutory powers to investigate persons who knowingly or recklessly provide false or misleading information in its statutory filing with the SFC under the dual filing system.

During a listing process, the Listing Division of the HKSE is the primary point of contact for listing applicants and their advisers. The Listing Division vets materials submitted by listing applicants for compliance with the Hong Kong Listing Rules and prospectus requirements under the Companies (Winding up and Miscellaneous Provisions) Ordinance and the Securities and Future Ordinance (SFO) under the laws of Hong Kong. The Listing Committee/Division of the HKSE will determine (subject to an established review procedure) whether a listing applicant may or may not list on the HKSE. The SFC does not actively participate in the listing approval process, but, if it appears to the SFC that the disclosure materials of a listing applicant contain false or misleading information or the applicant is otherwise unsuitable to list in Hong Kong, the SFC can object to a listing. The SFC has taken a front-loaded approach to identify risks and take pre-emptive measures to regulate the stock market.

Companies listed on GEM may apply for a separate listing of its existing businesses and assets if the spin-off proposal meets the principles applied by the HKSE, which include: (a) the spin-off entity satisfying all listing criteria, (b) no spin-off within three years of the parent's original listing and (c) the parent's remaining business having sufficient operations and assets to support its separate listing status after the spin-off.

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