Hong Kong as a Preferred IPO Hub…
Are We on the Right Track?

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List of acronyms

AIM	Alternative Investment Market
ADR	American Depositary Receipts
BOC	Bank of China
CEPA	Closer Economic Partnership Arrangement between Mainland and HK
CSRC	China Securities and Regulatory Commission
DRs	Depositary Receipts
EM	Emerging market
FTSE	Financial Times Stock Exchange Authority
GAAP	Generally Accepted Accounting Principles
GEM	Growth Enterprise Market
HDR	Hong Kong Depositary Receipts
HK	Hong Kong
HKSARG	The HK Special Administrative Region Government
HKSE	Hong Kong Stock Exchange
HKEx	Hong Kong Exchanges & Clearing
ICBC	Industrial & Commercial Bank of China
IFRS	International Financial Reporting Standards
IPO	Initial public offering
KOSDAQ	Korean Securities Dealers Association's Automated Quotations
LSE	London Stock Exchange

MOTHERS	Market of the High-Growth and Emerging Stocks
NASDAQ	National Association of Securities Dealers Automated Quotation
Nomad	Nominated adviser
NY	New York
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
P/E ratio	Price-earnings ratio
PRC	People’s Republic of China
QIB	Qualified Institutional Buyers
REITs	Real Estate Investment Trusts
RMB	Renminbi
RTGS	Real Time Gross Settlement System
SDR	Singapore Depositary Receipts
SESDAQ	Stock Exchange Of Singapore Dealing And Automated Quotation System
SFC	Securities & Futures Commission
SGX	Singapore Exchange
SOA	Sarbanes-Oxley Act
SME	Small-and-medium size enterprises
UK	United Kingdom
US	United States

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Executive Summary

HK's position as a preferred IPO hub faces challenges

- The achievements of HK's equity market have been impressive over the past five years in generating substantial growth in terms of market capitalization and trading turnover. All these are results of concerted efforts made by the Government, SFC, HKEx and the relevant professions.

- However, the engines which drove HK's recent stock market boom are not indefinitely bound to stay:

  - The influx of foreign funds which boosted turnover and share prices is very volatile

  - The listing of the initial batch of mega-size Mainland companies which boosted market capitalization will increasingly be replaced by smaller-size companies

- Other major exchanges have stepped up efforts to attract more Mainland issuers:

  - AIM has been extremely successful in attracting smaller Mainland companies

  - SGX has emerged as a popular cross-border IPO funding centre for smaller Mainland and HK enterprises in recent years

  - NYSE has been lowering its listing requirements to attract more Greater China issuers

  - Shanghai has been attracting an increasing number of Mainland issuers away from HK

- Policy changes in the Mainland could affect Mainland companies' choice of listing venue, which is beyond HK's control

HK needs to widen its issuer base ……

- The list of acceptable places of incorporation for listing applicants needs to be expanded, if not totally scrapped:
    - Outside of the Mainland, there is a great demand for IPOs by Asian and non-Asian EM companies
    - Clear guidance notes on the criteria for selection of acceptable places of incorporation should be issued
    - Risks related to new places of incorporation should be dealt with by ensuring disclosure
- The listing environment for SMEs needs to be improved:
    - The "quality assurance" approach of approving listing of smaller-scale companies needs to be dropped, investors should be left to price investment risks themselves
    - The GEM board, which imposed stricter listing requirements than the Main board, needs rethinking. If a new IPO platform dedicated to small and growth companies is deemed to be a niche that HK should develop, then the "buyer-beware" model of AIM in which the screening of listing applicants is delegated to the issuers' sponsors deserves reconsideration
- Trading of innovative securities should be allowed:
    - If the level of protection of retail investors is a concern, HK may consider creating a market segment similar to the Professional Securities Market of the UK, or allowing trading of restricted securities on the Main board or GEM but limiting trading to institutional investors as under US' Rule 144A

……. which requires a change in the mindset of listing authorities

- Market experiences gained over time has led to the formulation of certain rules which are seen as necessary. While these tighter rules are in place for good reasons, as market conditions have evolved and investors have grown more sophisticated, a more market-friendly and open mindset should be adopted when listing candidates.

- Approval authorities should not regard themselves as "guarantors of quality" :

  - There is no fool-proof approach to approving listings

  - Attempt to provide absolute protection could well breed moral hazard problems

  - Raising the threshold for IPOs beyond acceptable international standards would only discourage potential issuers from considering HK as the preferred market for listing

- Resources should instead be re-deployed to strengthen enforcement of regulations:

  - Timely prosecution consistent with performance benchmarks, which are comparable with other major markets, helps to ward off malpractices and violations, as well as protects investors' interest

  - Irregularities should be investigated promptly and acted upon

  - Hearings and disciplinary actions should be processed efficiently

The economy at large stands to benefit

- A stronger ecology for HK's financial industry:
  - The widening of the issuer base would generate business opportunities for IPO intermediaries from a more diverse range of operating scale
  - Preparing companies for listing simultaneously taps into a diverse range of professional needs that would benefit a wide spectrum of financial/business services industries, such as management consulting, business research, corporate finance, accounting, legal, etc.
  - Attracting companies from a more diverse range of operating scale and wider geographic origin to seek listing in HK would raise the interest of investors from various background to trade in HK and strengthen its position as an international fund management centre
- Spill-over effects on the economy:
  - A healthier and more balanced growth of the financial industry fostered by the stronger ecology would, in turn, create new employment opportunities and contribute to the overall growth of the economy through stimulating additional consumption and investment spending
  - The financial industry is one of the major pillars of HK's economy. In 2006, financing and insurance accounted for 12.3% of HK's GDP, 5% of HK's business establishments and 7% of HK's employed population

Part 1.

Global IPO Trends*

** All data used in this part are extracted from "Thomson IM Deal Module", except for stock prices and P/Es which are extracted from "Thomson I/B/E/S", and IPO subscription rates which are looked up from "Reuters"*

Summary of trends

Overview

- Global initial public offering (IPO) activity has recovered strongly since 2004, supported by increased global liquidity and buoyant investor confidence. Along with the surge of IPO funds raised, the number of IPOs has also increased although at a much slower rate, resulting in a rise in the average size of an IPO deal from US$54 million in 2003 to US$186 million in 2007. *(Slide 15)*
- The emerging markets (EM) have contributed significantly to the recent rebound of global IPO activity. Substantial amount of funds was raised by companies from fast-growing EM economies such as the Mainland, Russia, Brazil and India, where the appetite for capital is tremendous. In 2007, EM issuers became the dominant source of IPO for the first time in recent years, accounting for 58% of global funds raised. *(Slide 15)*
- As the market rebounded in recent years, IPO activity has become more global. Increasingly, companies are looking beyond their own borders to list and investors looking worldwide for growth opportunities. Exchanges are also actively marketing themselves abroad to attract overseas issuers. As more foreign companies listed on the local exchanges, the share of cross-border funds raised rose from 12% in 2003 to 29% in 2007. *(Slide 19)*

Domiciles of issuers

- In the absence of liquid capital markets at home and on the hope that more institutional investors could be tapped abroad, companies in EM economies are particularly keen on listing their shares abroad. Between 2003-2007, cross-border funds raised by EM issuers expanded strongly by an average annual rate of 90%, while funds raised locally increased by only 61% per year. *(Slide 21)*
- The Mainland is the world's largest source of IPO for cross-border listing, thanks to the country's policy to allow state-owned enterprises to seek overseas listing. A total of 284 Mainland companies opted for cross-border listing in the past 5 years, raising a sum of US$103.7 billion, or 47% of the total cross-border funds raised. *(Slide 22)* HK is the second largest source of cross-border IPOs in EM Asia. A total of 40 HK companies opted for overseas listing in the last 5 years, raising a sum of US$3.9 billion. *(Slide 23)*
- Outside the Mainland and HK, companies in other EM Asian economies have not been as keen in seeking overseas listing. Local debut remained the dominant listing method for these issuers, accounting for a vast majority of 93% of the total IPO funds they raised in the last 5 years. Within this period, only 36 out of a total of 1,544 IPO issuers from these economies opted for overseas listing. They collectively raised a sum of US$4.7 billion, equivalent to 4.5% of the US$103.7 billion cross-border funds raised by Mainland issuers during the period. Malaysia, Singapore and South Korea were the more active domiciles for cross-border issuers, contributing 7, 6 and 5 deals respectively over the last 5 years. *(Slide 24)*

Summary of trends (cont'd)

- In other EM economies outside Asia, companies are also increasingly looking beyond their own borders to list. Over the past 5 years, a total of 177 non-Asian EM companies opted for cross-border listing, raising a sum of US$67.4 billion, or 30% of the total cross-border funds raised. Russia is by far the largest source of cross-border IPO in non-Asian EM, accounting for about half of the funds raised by the region over the past 5 years. *(Slide 25)*
- Although issuers in the developed markets continued to favor local listings, there has also been an increasing amount of funds raised through cross-border IPOs in recent years. Over the past 5 years, 291 developed market issuers looked beyond their own borders to list their shares, raising proceeds of US$41.8 billion or 19% of the total cross-border funds raised. Companies which came to the market from the developed world were much smaller in scale than their EM counterparts, given that most of the EM economies are still in the early stage of publicly listing their large-scale corporations and state-owned enterprises. In 2007, none of the 93 cross-border IPOs launched by developed markets issuers exceeded US$2 billion in size, compared to 4 out of 204 offered by EM issuers. *(Slide 26)*

Locations of exchange

- As more EM issuers sought listing, the dominance of US exchanges in global IPO activity has diminished. *(Slide 14)* Despite regaining its position as the world's largest IPO centre in 2007, US' share in global cross-border IPO funds raised has declined from 29.3% in 2003 to 18.5% in 2007, lagging behind the UK and HK. Meanwhile, with their growing popularity as preferred venues for cross-border listing, especially for EM issuers, the UK and HK collectively accounted for 67% of the cross-border funds raised globally in 2007 and 54% of the cross-border deals completed during the year. *(Slides 28 & 31)*
- HK was the world's second largest host for cross-border IPOs in 2007 -- down from the top ranking it maintained in 2005-2006 -- accounting for 31% of the cross border funds raised globally in 2007. 99% of this sum was raised on the Main board of the Hong Kong Stock Exchange (HKEx), and only 1% on the Growth Enterprise Market (GEM). Between 2003-2007, IPO funds raised in HK increased dramatically by 717%. However, the cross-border issuer base of HK is very narrow. During the past 5 years, HK had attracted 148 overseas issuers from only 7 domiciles, all of which were located in EM Asia, with Mainland companies alone accounting for 99% of the cross-border funds raised. HK is the most preferred venue for overseas listing by Mainland enterprises. In 2006, more than half of the 59 Mainland companies that sought overseas IPO chose to list in HK, and the funds raised accounted for 97% of the total. However, HK's dominance has declined, as other exchanges also aggressively sought Mainland listings. In 2007, only 38% of the Mainland's cross-border IPO deals were hosted by HK and funds raised accounted for a much lower 75% of the total. *(Slides 28 & 29)*

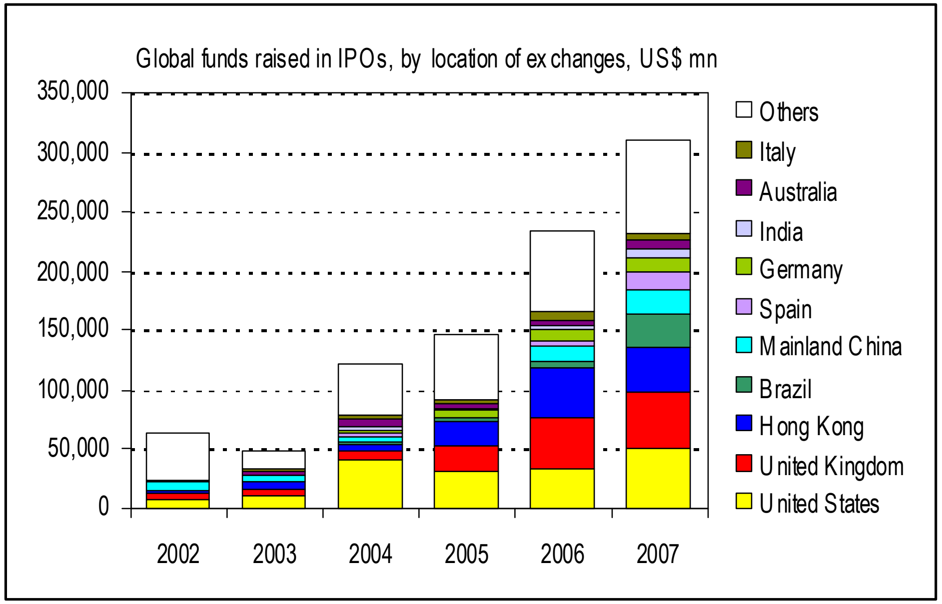
Summary of trends (cont'd)

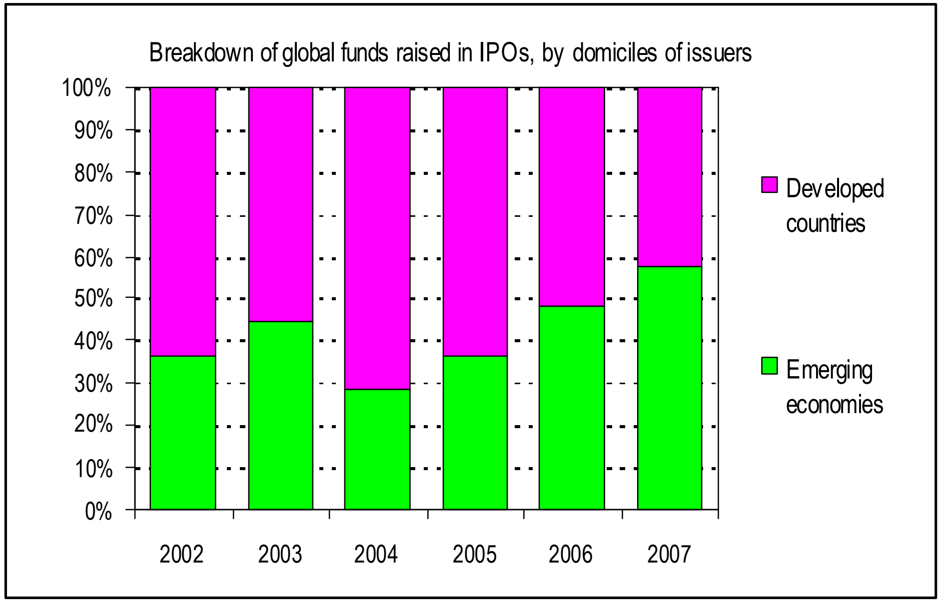
- The UK has surpassed HK as the largest cross-border IPO centre in 2007, and account for 36% of the cross-border funds raised globally. Compared to HK, the UK enjoys a much broader diversity of domicile origins of cross-border IPO issuers. During the past 5 years, it had attracted 382 overseas issuers from 52 different domiciles, including 34 in the emerging markets, of which 8 are in Asia. Between 2003-2007, IPO funds raised in the UK surged by 770%. The UK is the most preferred venue for cross-border listing by non-Asian EM issuers particularly the larger companies, hosting 58% of the cross-border IPOs offered by these issuers and 70% of the funds raised during the past 5 years. The UK is also the most preferred venue for cross-border listing by developed market issuers, hosting 69% of the funds raised by these issuers in the last 5 years. The surge of cross-border listing in the UK is closely tied to the growth of the Alternative Investment Market (AIM) which hosted 78% of the cross-border IPO deals completed in the UK over the past 5 years. In 2004, AIM accounted for 49.7% of the cross-border funds raised in the UK, but its share declined to 32% in 2007, as several large Russian companies sought listing on the Main board. *(Slides 28 & 30)*
- The US had been the preferred centre for cross-border listing until recent years when a series of corporate scandals prompted the implementation of stricter reporting standards which turned international issuers away. The bulk of US cross-border listings took place in the New York Stock Exchange (NYSE), which accounted for 77% of the funds raised and 39% of the deals completed over the past 5 years. The NASDAQ, which virtually disappeared in cross-border IPO right after the bursting of the tech bubble in early 2000s, has regained foothold in the past 3 years as it diversified away from its traditional focus on technology industry into manufacturing, healthcare and media companies. In 2007, NASDAQ shared 25% of the cross-border funds raised in the US. *(Slide 31)*
- Thanks to increasing marketing effort abroad to attract overseas issuers, Singapore has recently become more active in the cross-border IPO market. In 2007, Singapore accounted for 3.1% of the global cross-border funds raised. Foreign companies listed in Singapore mainly came from the Mainland, which accounted for 54% of the cross-border funds raised and 70% of the deals completed over the past 5 years. HK issuers also played a significant role, but the size of an IPO by HK company in Singapore was only US$68 million, compared to the US$244 million average IPO size of local listings in HK. Singapore also attracted listings from other EM Asian economies outside the Mainland and HK, hosting 17 of the 36 cross-border IPOs offered by these issuers and 42% of the funds raised over the past 5 years. Singapore also attracted some IPO business from non-Asian EM issuers. The bulk of the cross-border activities in Singapore was launched on the Main board of the Singapore Stock Exchange (SGX). Foreign issuers have been relatively inactive in the second board of SGX, i.e. SESDAQ, which completed only 4 cross-border IPO deals over the past 5 years. *(Slides 24 & 32)*

Overview

Growth in emerging markets fuelled rebound of global IPO activity

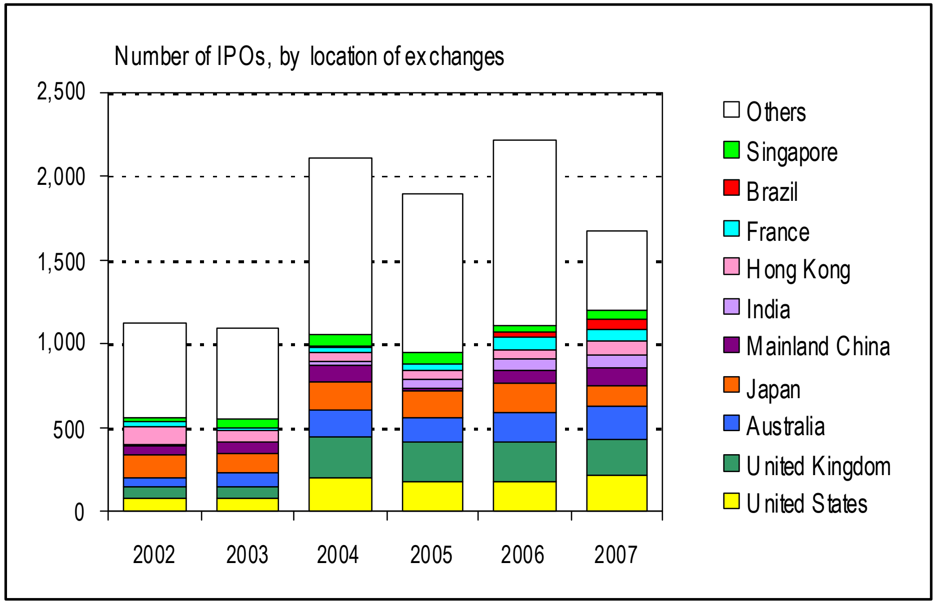
- After declining for 3 successive years due to the overhang from the bursting of the tech bubble, global IPO activity has recovered strongly since 2004. Supported by increased global liquidity (see Appendix 1a) and buoyant investor confidence (see Appendix 1b), funds raised in IPO surged 526% between 2003-2007 to US$311 billion.
- The emerging markets (EM) have contributed significantly to the recent rebound of global IPO activity, driven by robust economic growth (see Appendix 1c). Substantial amount of funds was raised by companies from fast-growing EM economies such as the Mainland, Russia, Brazil and India, where the appetite for capital is tremendous. Between 2003-2007, global funds raised by EM issuers increased 730%, while capital raised by developed market (DM) companies increased more slowly by 368%. In 2007, EM issuers raised more IPO funds than DM issuers, accounting for 58% of global funds raised.
- As more EM issuers sought listing, the dominance of US exchanges in global IPO activity has diminished. Between 2003 and 2007, the share of US in global IPO funds raised declined from 23.7% to 16.2%. Meanwhile, the shares of UK and HK have increased, thanks to their growing popularity as preferred venues for cross-border listing, especially for EM issuers. Between 2003-2007, IPO funds raised in the UK and HK increased dramatically by 770% and 717% respectively. In 2007, the UK and HK hosted 15.5% and 11.7% respectively of the global funds raised.
- Outside of the top 3, smaller exchanges in EM economies such as Brazil, India and Russia, have also gained significance as their stock markets grow in line with the faster expansion of their economies and the growing demand for capital by local companies. Brazil and India even rose to rank among the top ten IPO hosts in 2007.

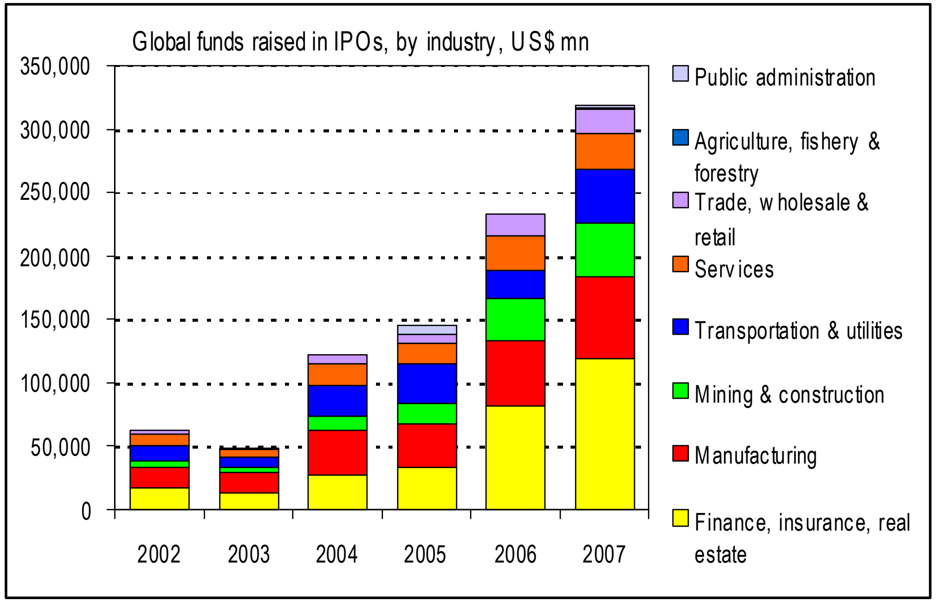




Companies coming to market were larger in size than before

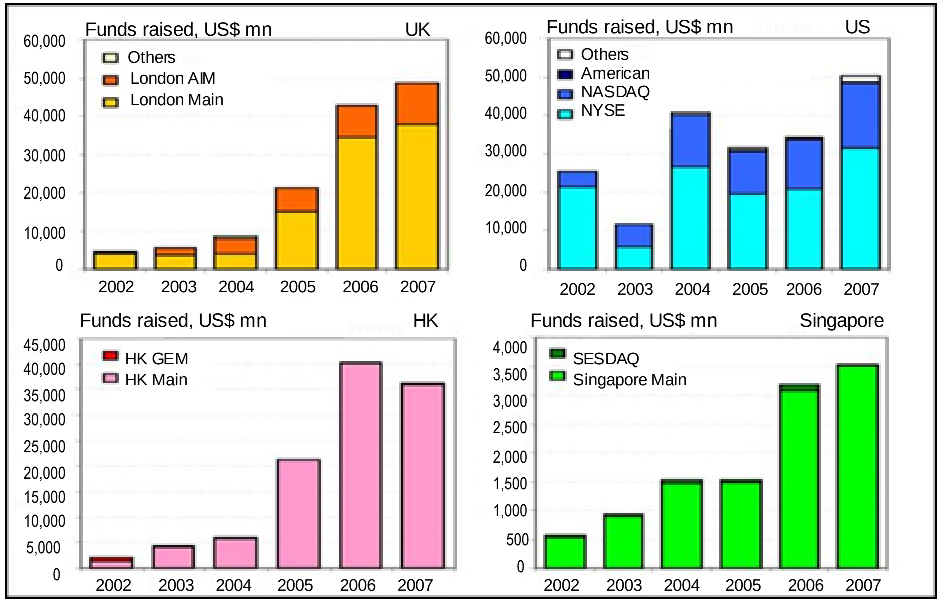
- Along with the surge of IPO value, the number of IPOs has also increased noticeably with the debut of more EM issuers. Between 2003-2007, IPO number rose by 245%. The slower growth of IPO number over value reflects increase in the average size of an IPO deal, which more than doubled from US$54 million to US$186 million. In 2007, 60 out of the 1,673 IPOs launched, or 3.6% of the total, exceeded US$1 billion in size, up from 6 out of 922, or 0.65% of the total, in 2003.
- In 2007, the US hosted a total of 215 IPO deals and raised US$50 billion in IPO funds, regaining the position as the world's largest IPO centre. It was closely followed by the UK, which hosted 210 IPO deals and raised US$48 billion in IPO funds. HK, however, which was the 3rd largest IPO market by value, only hosted 79 IPOs and ranked the 7th by number. This reflects the larger average size of IPO deals hosted in HK, which amounted to US$459 million in 2007, than other exchanges such as US & UK, the average IPO size of which was just around US$230 million . In 2007, HK hosted 2 out of the world's 20 largest IPOs that exceeded US$2 billion.
- Companies coming to market in recent years were from a variety of industries. While manufacturing continued to account for the largest number of IPOs, its share declined steadily from 30% to 21% between 2003-2007. Meanwhile, more companies from the mining and construction industries have come to the market and their share edged up from 7.2% to 11.6%. Measured by value, the finance, insurance and real estate industries have gained much significance over the past years. In 2007, the sector accounted for 7 out of of the world's 10 largest IPOs and 38% of the global funds raised.

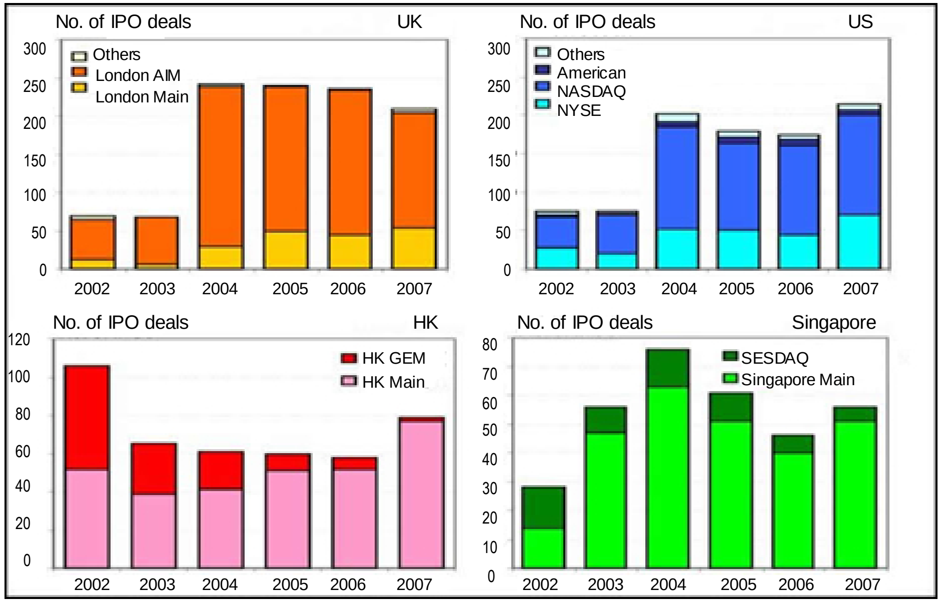




Main boards accounted for the bulk of the funds raised

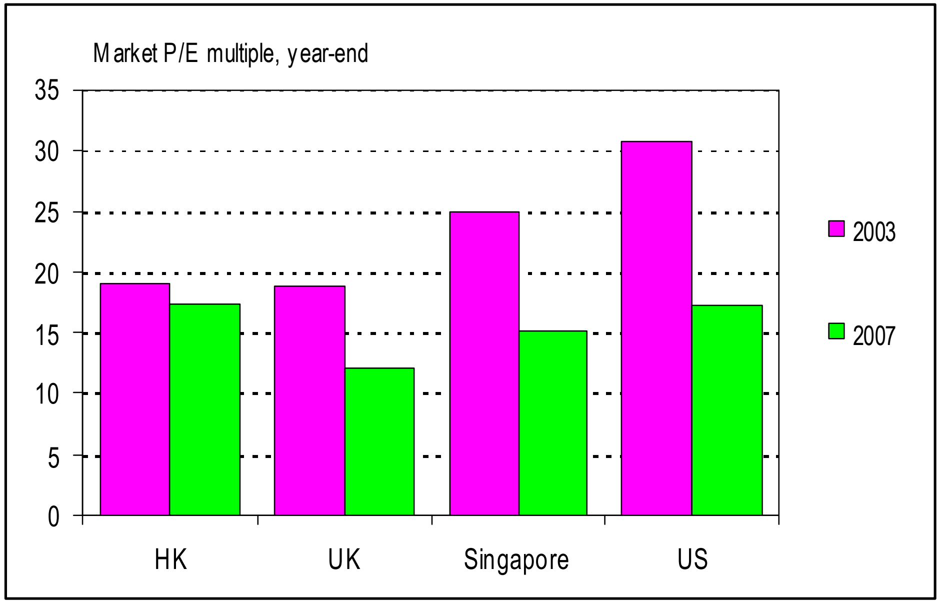
- Despite continued growth of the New markets, the Main boards continued to account for the bulk of the IPO funds raised, although New markets in the US and UK were able to attract a greater number of listings than their Main boards.
- The Alternative Investment Market (AIM) of UK has been one of the best performing New markets in recent years, recording a surge in funds raised from US$1.9 billion in 2003 to US$10.9 billion in 2007. The number of new listings on AIM exceeded that of NASDAQ by more than 50% in 2004-2006, though the lead narrowed to 16% in 2007. In terms of funds raised, NASDAQ which raised three times more funds than AIM in 2003, raised only 53% more funds than AIM in 2007.
- Both HK and Singapore reported notable declines in the number of companies attracted to their New markets. Between 2002-2007, the share of the Growth Enterprise Market (GEM) in the number of IPOs in HK declined from 51% to 2.5%, while the share of SESDAQ in Singapore fell from 50% to 8.9%. Given the improved equity market sentiments during the year, however, HK's GEM still raised 13% more funds in 2007 than 2006.
- The success of AIM in attracting IPOs has drawn the attention of exchanges worldwide and is beginning to attract more competition. Within UK, in 2007, the PLUS Market Group was granted the Recognized Investment Exchange status which gives it the same privileges as the London Stock Exchange (LSE). Elsewhere, the Singapore Stock Exchange (SGX) has also launched an AIM-kind of platform, Catalist, which kicked off in December 2007, replacing SESDAQ.





IPOs hosted in HK command higher P/Es at time of listing

- Notwithstanding the decline of its dominance in global IPO activity, the US market still commands a higher average P/E ratio than the UK. That means, a given sector in the US market will generally trade at a premium to the same sector in the UK market over a period of time. As for the P/Es of newly listed companies, comparisons can only be made between HK and Singapore where separate data on P/Es for individual IPOs are disclosed.
- Data reported show that cross-border IPOs hosted in HK commanded relatively higher P/Es than those launched in Singapore. The average listing P/Es of overseas companies on the Main board of HK was about 28x in 2007. On the higher side of the range, IPOs by Mainland issuers in mining, retail, financial services, and IT-related sectors saw P/Es exceeding 30x, with NetDragon and Alibaba.com priced at above 100x their earnings per share. The average P/Es of cross-border IPOs in Singapore was lower at 13x. Due to the heavier concentration of manufacturing companies among the Mainland IPOs listed in Singapore which command a lower P/E than services companies, P/Es of cross-border IPOs in Singapore fluctuated within a narrower range of 3-25x.
- In terms of market reception, close to 90% of the cross-border IPOs offered in HK (on both the Main board and GEM) were over-subscribed, and about 62% of the companies that disclosed their subscription rates reported over 100x subscription. China Citic Bank, which listed in April 2007, even reported 230x subscription rate. While most cross-border IPOs listed in Singapore were also over-subscribed, the responses were less overwhelming, with only 58% of the issuers reporting oversubscription rates of above 100x.



Cross-border IPOs listed in HK & SG, issues reporting high listing P/Es (2007)

Hong Kong-listed	Domicile	P/E	Singapore-listed	Domicile	P/E
NetDragon Websoft	China	108	China XLX Fertiliser	China	24
Alibaba.com Limited	China	106	China Yuanbang	China	24
China Citic Bank	China	60	China Automation	China	21
China Huiyuan Juice	China	45	Sihuan Pharm Hldgs	China	18
Intime Department Store	China	45	China Oilfield Tech	China	17
China Railway Engr	China	44	China Farm Eqpmt	China	12
Anton Oilfield Services	China	38	Uni-Asia Finance	HK	12
Qun Xing Paper	China	36	Foreland Fabrictech	China	10
Sichuan Hidili Industry	China	36	Sinostar PEC	China	9
Kingsoft Corp	China	36	China Hongcheng	China	8

IPOs launched in HK posted higher price gains post listing

- Companies listed in overseas exchanges generally received positive response on the initial trading day. Among the exchanges which hosted the most cross-border IPOs in 2007, foreign companies listed on the Main board of HK posted the highest single-day price gains on their first day of listing. On average, IPO share prices doubled on their first day of trading. 22% of these companies posted more than 50% gains, and some even saw their prices rise in multiples. All the top performers were Mainland-domiciled issuers.
- Cross-border IPOs listed in Singapore also posted robust single-day price gains on their first day of listing. On average, these shares gained 50% on their first day of trading with 29% of them posting more than 50% gain, four Mainland IPOs saw prices more than doubled.
- Price gains of cross-border IPOs in the UK and US markets were more subdued. In 2007, the average price gains of cross-border IPOs on the first trading day on the Main board of LSE and the NYSE were below 20%. The lower price gains reflects the impact of less dominant Mainland IPOs in these exchanges.
- Among all the cross-border IPOs hosted in the first half of 2007, however, around 40% traded below their offer prices as at the last trading day in 2007, dragged either by a downturn in global market sentiments or issuers' operating performance falling short of investors' expectations.

Price performance* of cross-border IPOs on their 1st trading day

Issuer	Domicile	Primary Exchange	% gain
Xinjiang XinXin	Mainland China	HK Main	1599
Fosun International Ltd	Mainland China	HK Main	776
China Farm Equipment Limited	Mainland China	SG Main	196
Alibaba.com Limited	Mainland China	HK Main	192
Sunvic Chemical	Mainland China	SG Main	169
CMZ Holdings Ltd	Mainland China	SG Main	153
Foreland Fabrictech Hldgs Ltd	Mainland China	SG Main	140
Yong Xin International Hldgs	Mainland China	SG Main	135
China Angel Food Limited	Mainland China	SG Main	101
China Citic Bank	Mainland China	HK Main	96
Xingye Copper	Mainland China	HK Main	94
China Shenghuo Pharmaceutical	Mainland China	American	86
China Sports International Ltd	Mainland China	SG Main	83
Tiangong International Co Ltd	Mainland China	HK Main	82
Sichuan Hidili Industry Co Ltd	Mainland China	HK Main	78

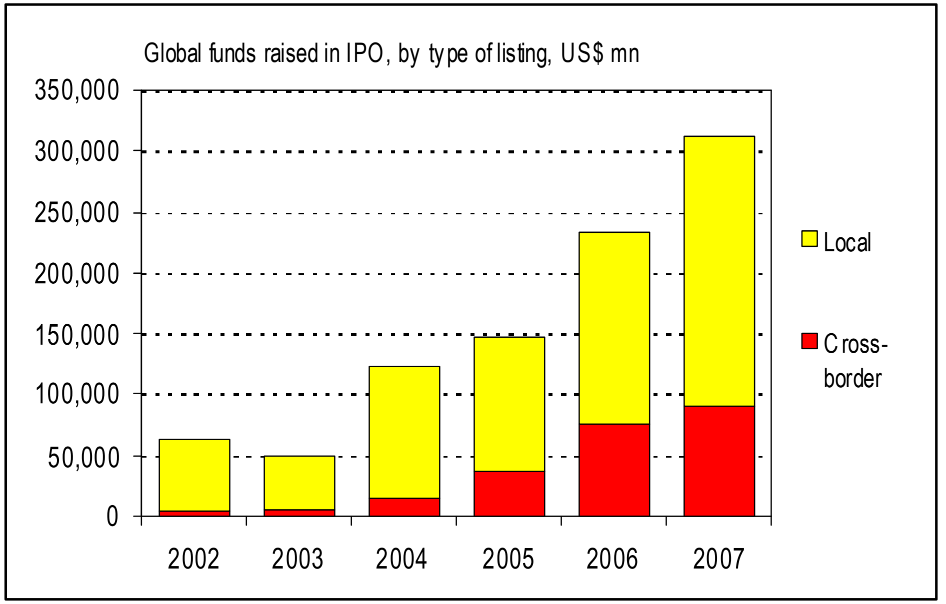
Price performance* of cross-border IPOs listed in 1H2007, as at end-2007

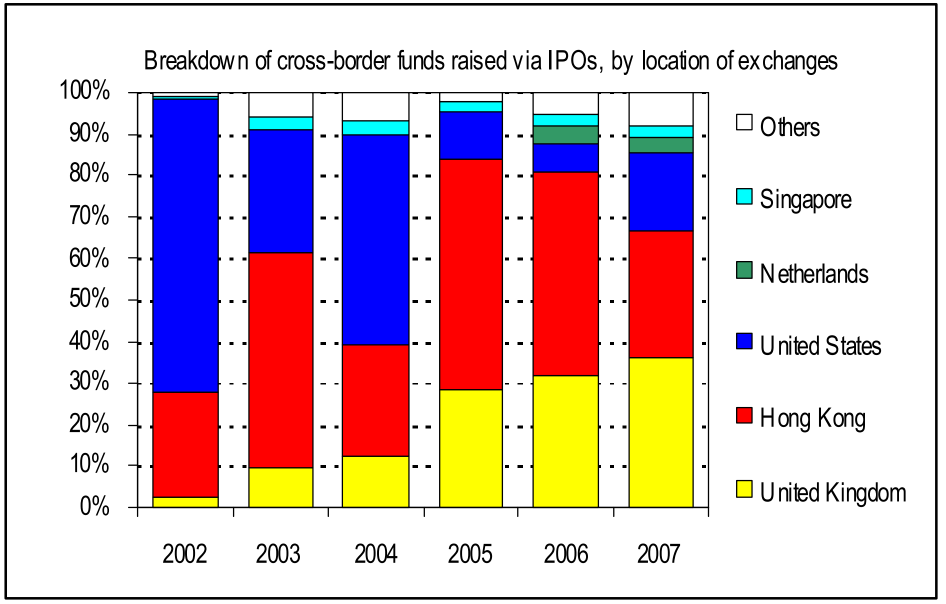
Issuer	Domicile	Primary Exchange	% gain
JA Solar Holdings Co Ltd	Mainland China	Nasdaq	292
Applied Intellectual Capital	United States	London AIM	151
Yingli Green Energy Holding Co	Mainland China	New York	120
Cellcom Israel Ltd	Israel	New York	75
LDK Solar Co Ltd	Mainland China	New York	74
Lululemon Athletica Inc	Canada	Nasdaq	69
Yangzijiang Shipbuilding Hldgs	Mainland China	SG Main	49
Haike Chemical Group Limited	Mainland China	London AIM	49
KWG Property Holding Ltd	Mainland China	HK Main	47
Validus Holdings Ltd	Bermuda	New York	46
Anta Sports Products Ltd	Mainland China	HK Main	45
Intime Department Store Grp Co	Mainland China	HK Main	43
Gulf Finance House EC	Bahrain	London Main	42
Perfect World Co Ltd	Mainland China	Nasdaq	37
China Molybdenum Co Ltd	Mainland China	HK Main	32

*Performance is weighted according to the issue price to strategic, institutional and retail investors. In case of international placements, adjustments were made for currency movements. It is worth noting that some of the IPOs allocate as little as 10% for retail subscription.

More issuers look beyond their own borders to list

- As the market rebounded in recent years, IPO activity has become more global. Increasingly, companies are looking beyond their own borders to list and investors looking worldwide for growth opportunities, resulting in a surge in cross-border IPO activity. Between 2003-2007, global IPO funds raised across the border surged by an average 99% per year to US$90.4 billion. During the period, the number of cross-border IPO listings also increased more than six-fold from 44 to 297.
- The surge in cross-border IPO was also supported by exchanges actively marketing themselves abroad to attract overseas issuers. As more foreign companies listed on the local exchanges, the share of cross-border funds raised rose from 11.6% in 2003 to 29.1% in 2007. The rising trend was particularly notable in the UK and HK which hosted most of the cross-border listing. In 2007, cross-border IPO accounted for 67% of the total funds raised in the UK, up sharply from 9.8% in 2003. In HK, the share also edged up to 77.1% from 67.5%.
- As Mainland enterprises raised less IPO funds overseas in 2007, the share of cross-border funds in HK was much lower in 2007, compared to 91% in 2006. In the UK, however, it continued to edge up, supported by the listing of more Russian companies in the country. The decline of mega-size overseas listing by Mainland enterprises has led to a decline in IPO funds raised in HK in 2007.
- Notwithstanding the rising trend of cross-border listing, the vast majority of IPOs stay local. For 70.9% of the companies coming to the market in 2007, the primary place of listing was still in the market where they operate.

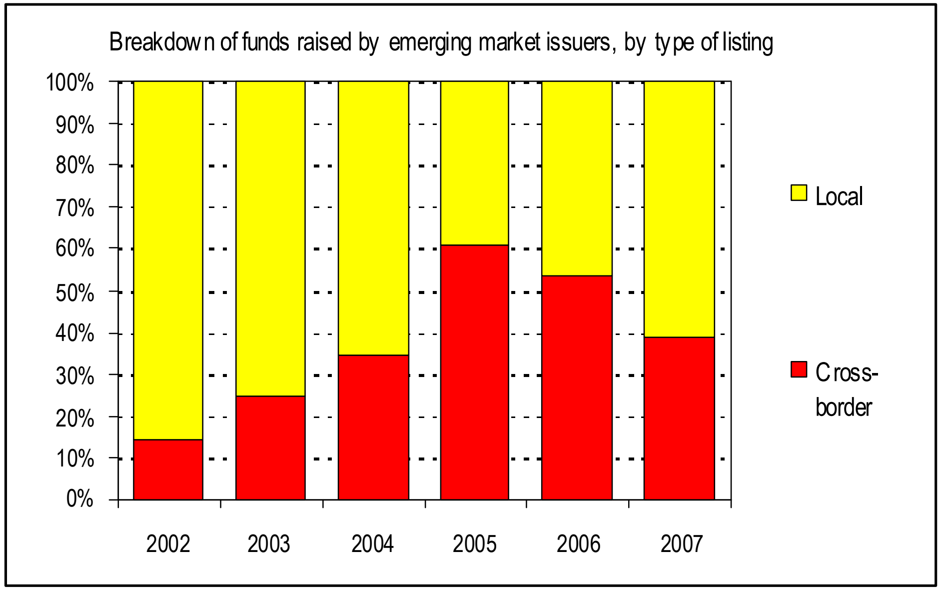


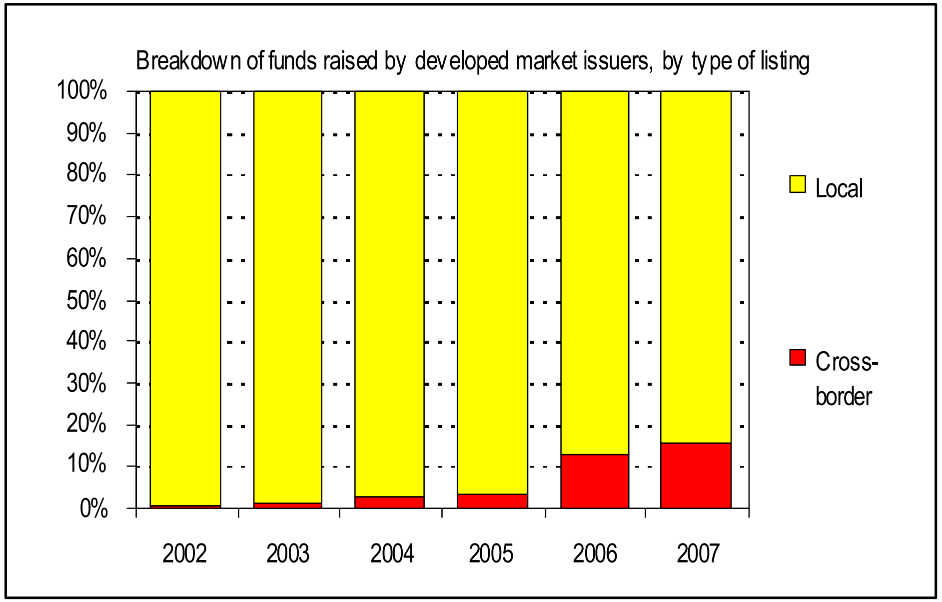


Domiciles of issuers

Cross-border funds raised by emerging market companies surged

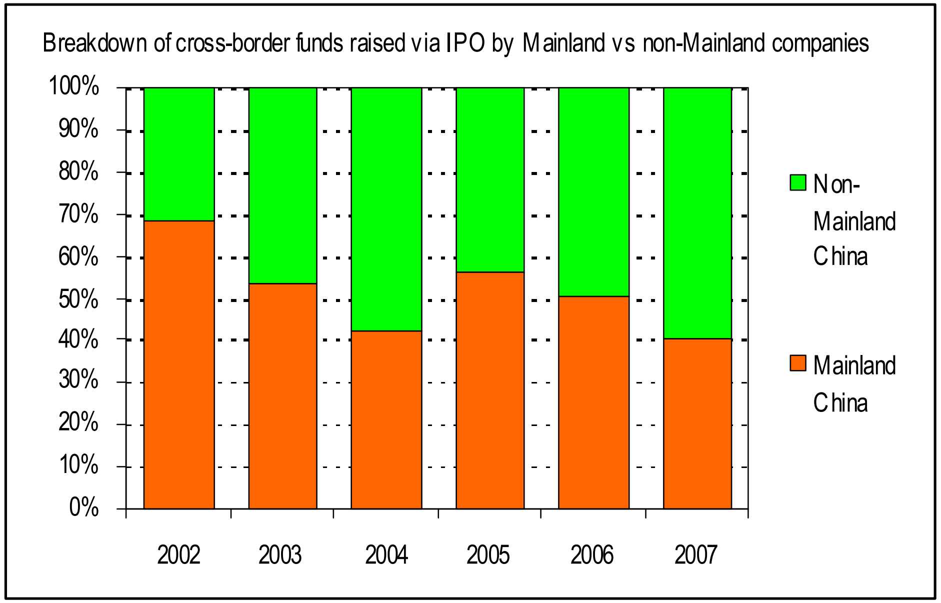
- Closely tied to the globalization of IPO activity is the increase of cross-border funds raised by EM issuers, particularly from the Mainland and Russia. In the absence of liquid capital markets at home and on the hope that more institutional investors could be tapped abroad, companies in EM economies are keen on listing their shares abroad.
- Between 2003-2007, cross-border funds raised by EM issuers expanded strongly by an average 90% per year to US$70 billion, accounting for 39% of the total funds raised by EM issuers both locally and abroad, up from 24.8%. By comparison, funds raised locally increased by only 61% per year. During the same period, the number of cross-border IPO listings by EM issuers also increased from 40 to 204.
- In line with the belief that more and larger investors could be tapped abroad than domestically, the average size of an EM cross-border IPO deal amounted to US$344 million in 2007, compared to US$189 million for an average deal completed locally. In 2007, 7.4% of the EM issuers that launched a cross-border IPO raised more than US$1 billion in funds, while only 3.6% of the IPO launched locally was above US$1 billion.
- In the developed world, the number of issuers opting for cross-border listing also increased, but the trend has not been as prevalent as in the EM. Local listings still accounted for a vast majority of 84.5% of the total IPO funds raised by developed market issuers in 2007.

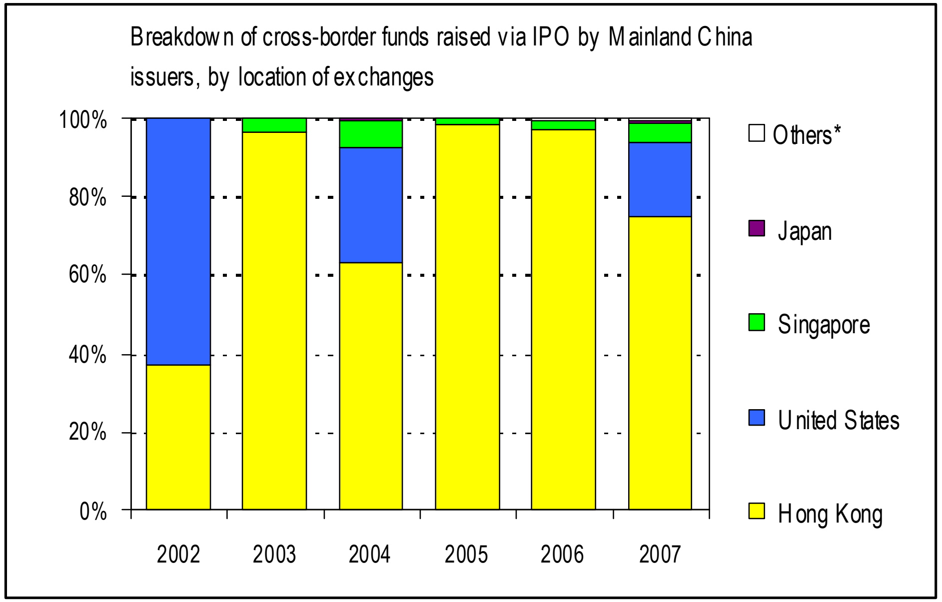




Mainland issuers are the largest source of cross-border IPO

- The Mainland has been the largest source of IPO for cross-border listing in recent years. A total of 284 Mainland companies opted for cross-border listing during 2003-2007, raising a sum of US$103.7 billion, or 46.7% of the total cross-border funds raised. 72% of these funds were raised in the past two years, driven mainly by the listing of banking giants ICBC, BOC and Citic Bank, which together fetched US$30.7 billion abroad.
- HK has been the most preferred venue for overseas listing by Mainland enterprises. In 2007, 42 out of the 110 Mainland companies that sought overseas IPO chose to list in HK, and the funds raised accounted for 75% of the total. The US, which hosted 63% of the cross-border funds raised by Mainland enterprises in 2002, has played a much minor role in recent years, due to the implementation of stricter reporting standards which probably have turned overseas issuers away. In 2007, the US accounted for 18.7% of the cross border funds raised by Mainland enterprises.
- Meanwhile, Singapore has recently become more active in the cross-border IPO market, driven by active marketing effort to attract Mainland issuers. Between 2003-2007, 91 Mainland companies were listed in Singapore, raising a sum of US$3.4 billion. In 2007, Singapore accounted for 5.1% of the cross-border funds raised by Mainland enterprises. The average size of a Mainland IPO in Singapore, which amounted to US$64 million, was substantially smaller than that in HK which topped US$651 million, suggesting that HK remains the main IPO centre for larger Mainland companies.

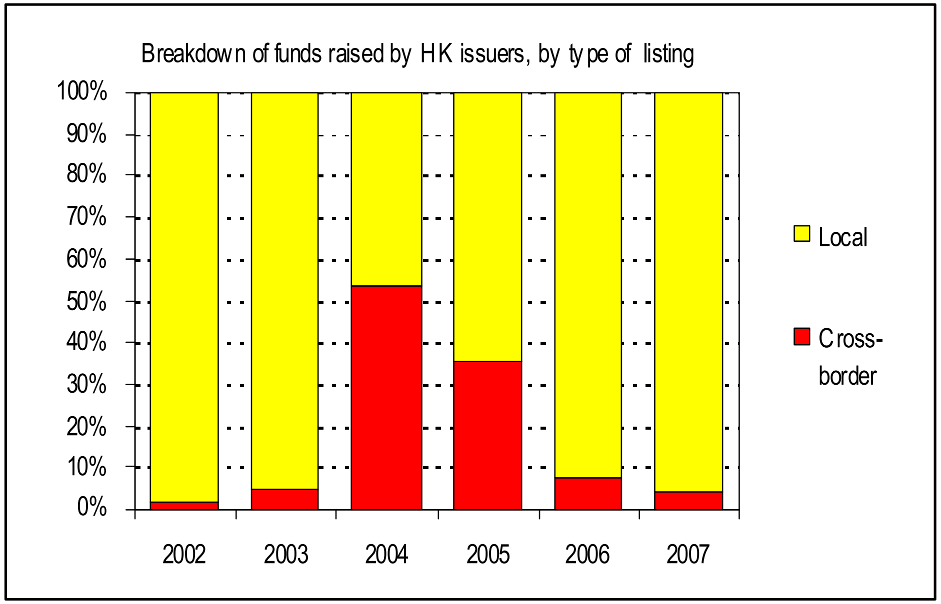


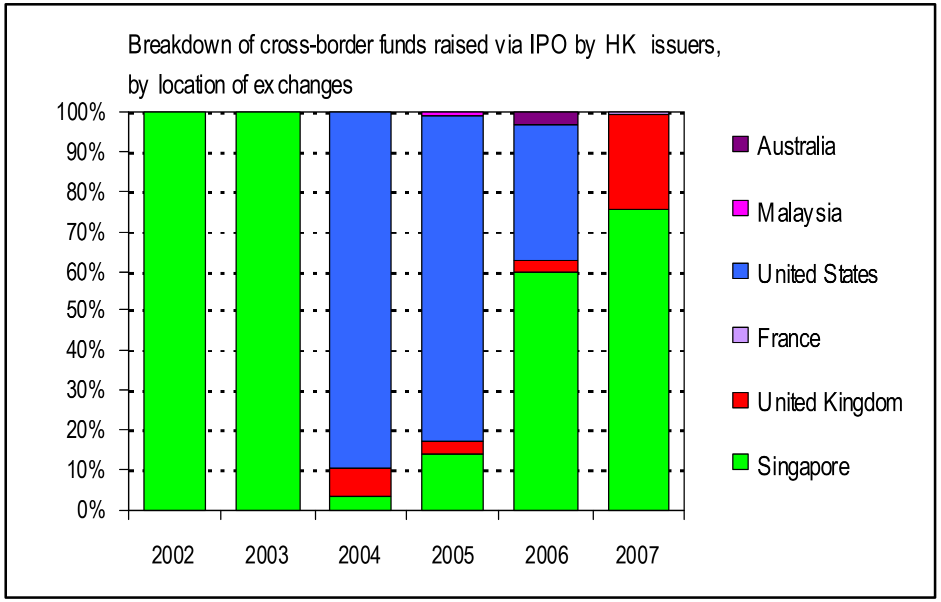


*Include UK in 2005 & 2006; Germany, UK and Australia in 2007

Funds raised by HK companies abroad declined in recent years

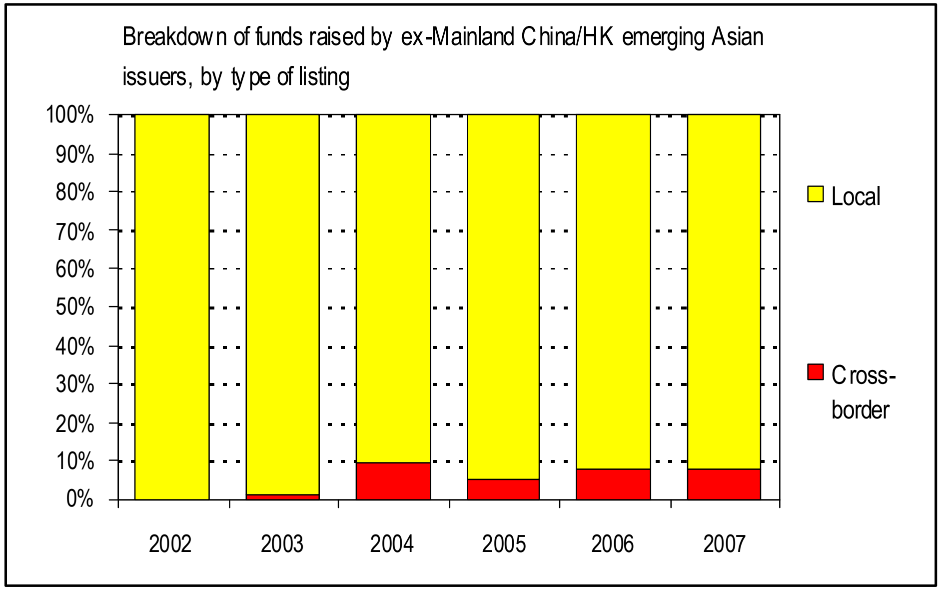
- HK is the second largest source of cross-border IPOs in emerging Asia. A total of 40 HK companies opted for overseas listing in the last 5 years, raising a sum of US$3.9 billion. In 2004 alone, HK companies raised a total of US$2.5 billion abroad, US$0.3 billion more than the US$2.2 billion raised locally. As more HK companies took advantage of the rallying local stock markets to raise funds, the amount of funds raised in overseas exchanges by HK companies declined noticeably in the last 2 years. In 2007, HK companies raised only US$360 million in overseas exchanges, equivalent to 4.3% of the funds raised locally in HK.
- Singapore hosted most of the overseas listing of HK companies, with 23 of the 40 cross-border IPOs offered by HK companies in the past 5 years listed there. For each year between 2003-2007, at least 3 HK companies listed their IPO in Singapore. Most of the IPO by HK company in Singapore were small in scale, averaged only US$67.8 million in 2007, compared to US$244 million for an average IPO by a HK company listed in HK, suggesting that only smaller HK companies have opted to list in Singapore in favour of HK.
- Measured by value, the US hosted the bulk, or 73.9%, of the cross-border funds raised by HK companies in the past 5 years, supported mainly by the large-scale fund raising exercises by China Netcom and Hutchison Telecom International in the NYSE in 2004, which raised a total of US$2.2 billion. Other exchanges that had hosted IPOs of HK companies in the past included the UK, Australia and Malaysia, but they were relatively insignificant.

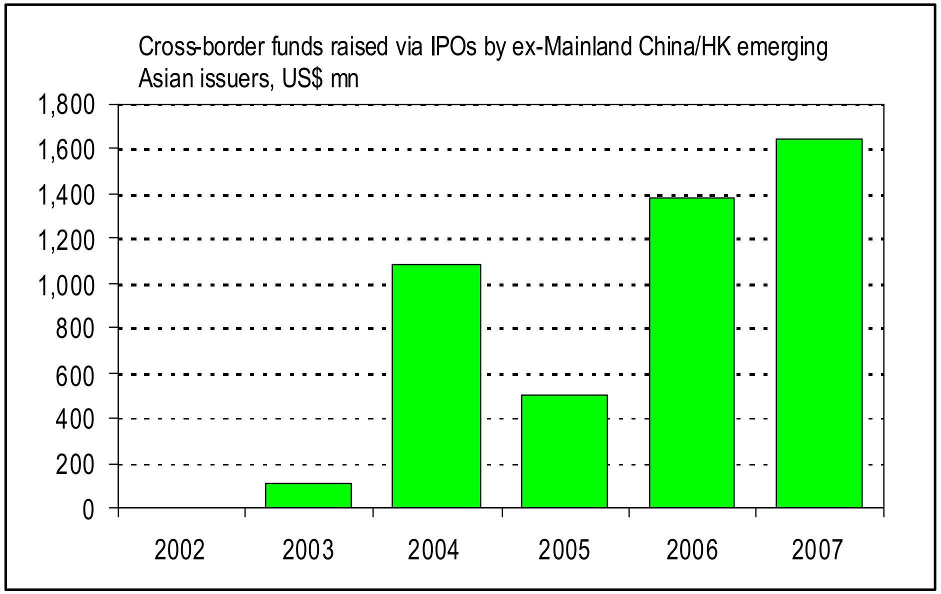




Other issuers in emerging Asia are less keen on listing abroad

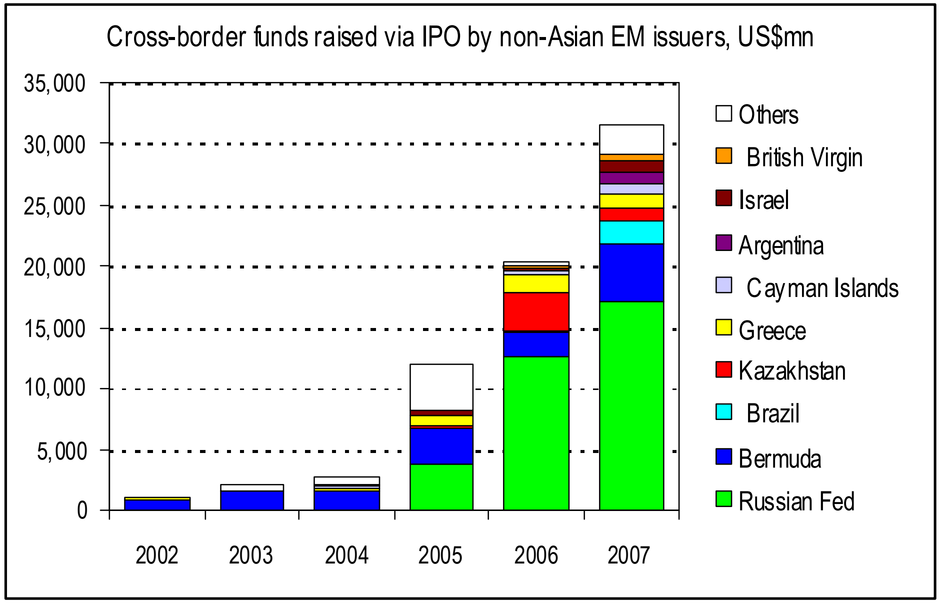
- Outside the Mainland and HK, companies in other emerging Asian economies have not been as keen on seeking overseas listing. Local debut remained the dominant listing method for these issuers, accounting for a vast majority of 93% of the total IPO funds they raised in the last 5 years. Within this period, only 36 out of a total of 1,544 issuers from these economies opted for an overseas listing. They collectively raised a sum of US$4.7 billion, equivalent to 4.5% of the US$103.7 billion cross-border funds raised by Mainland issuers during the period.
- These 36 issuers came from 12 domiciles, of which Malaysia, Singapore and South Korea were the more active ones, contributing 7, 6 and 5 deals respectively over the last 5 years. The 5 South Korean deals raised a total of US$1.5 billion, making the country the largest single source of cross-border IPO in emerging Asia outside the Mainland.
- Singapore attracted more listings from other EM Asian economies, hosting 17 out of the 36 IPOs and 42% of the funds raised. Since 2005, Singapore has stepped up efforts in attracting foreign listings, and the debut of the US$979 million Thai Beverage in 2006, which remains the largest IPO ever hosted in Singapore, marked the success of the country in attracting large foreign companies to list in the country.
- Apart from Singapore, US and HK are also popular listing venues for these issuers. In 2004, the US hosted the US$1.1 billion IPO of South Korean LG Philips LCD which remains the largest cross-border IPO ever offered by an ex-Mainland/HK emerging Asian issuer. Meanwhile, HK hosted 3 out of the 15 IPOs offered by these issuers in 2007.

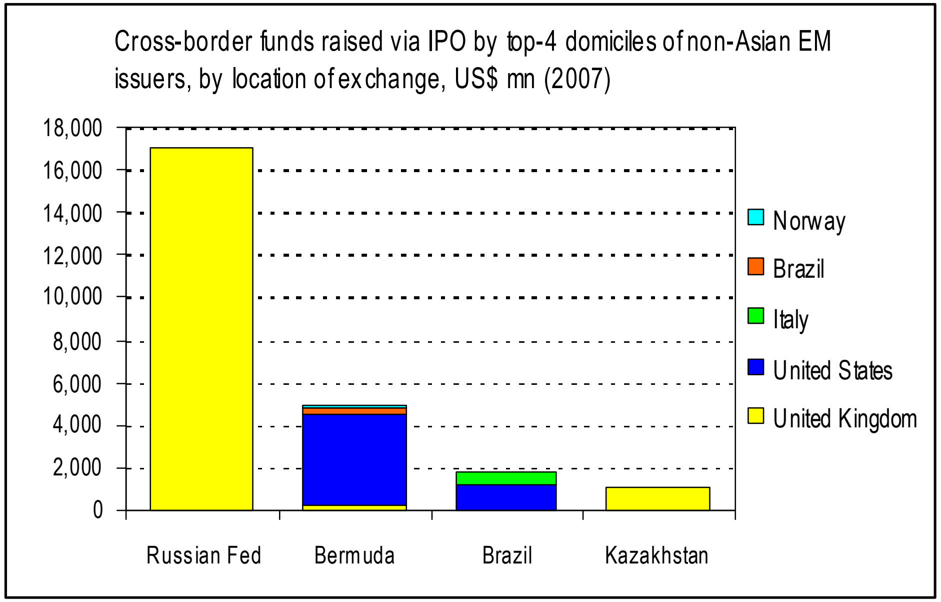




Russia gains importance as a source of cross-border IPO outside Asia

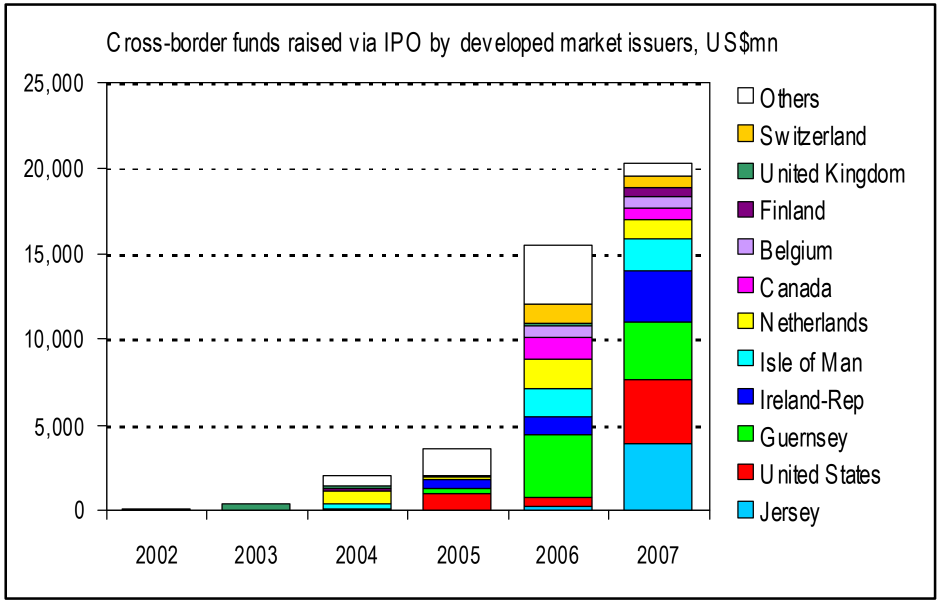
- In other EMs outside Asia, companies are also increasingly looking beyond their own borders to list. Between 2003-2007, the number of cross-border IPO involving non-Asian EM issuers rose from 7 to 68, and the amount of funds raised increased more than ten-fold from US$2.1 billion to US$31.6 billion. Over the past 5 years, a total of 177 non-Asian EM companies opted for cross-border listing, raising a sum of US$67.4 billion, or 30.3% of the total cross-border funds raised.
- Russia is by far the largest source of cross-border IPO in non-Asian EM, accounting for 49.6% of the funds raised over the past 5 years. In 2006, Russian mining giant OAO Rosneft raised US$10.7 billion in the UK, which remains the largest IPO ever offered by a non-Asian EM issuer. Measured by IPO number, offshore financial centres as a group was the most popular domicile. Bermuda, BVI and Cayman Islands collectively accounted for 60 out of the 177 IPOs completed in the past 5 years.
- Almost all of the cross-border listing by non-Asian EM issuers were launched outside Asia, with the UK being the most preferred venue, hosting 58.8% of the IPOs and 70.6% of the funds raised during the past 5 years. The UK was particularly attractive to the larger companies. 10 out of the 13 mega-size deals completed in the last 5 years with value exceeding US$1 billion were hosted in the UK.
- Singapore also attracted some IPO business from non-Asian EM issuers. In 2005, Singapore hosted the IPO of Israel's gem stone company Sarin Technologies. The company has a strong business base in India, a market which Singaporean investors are more familiar with.

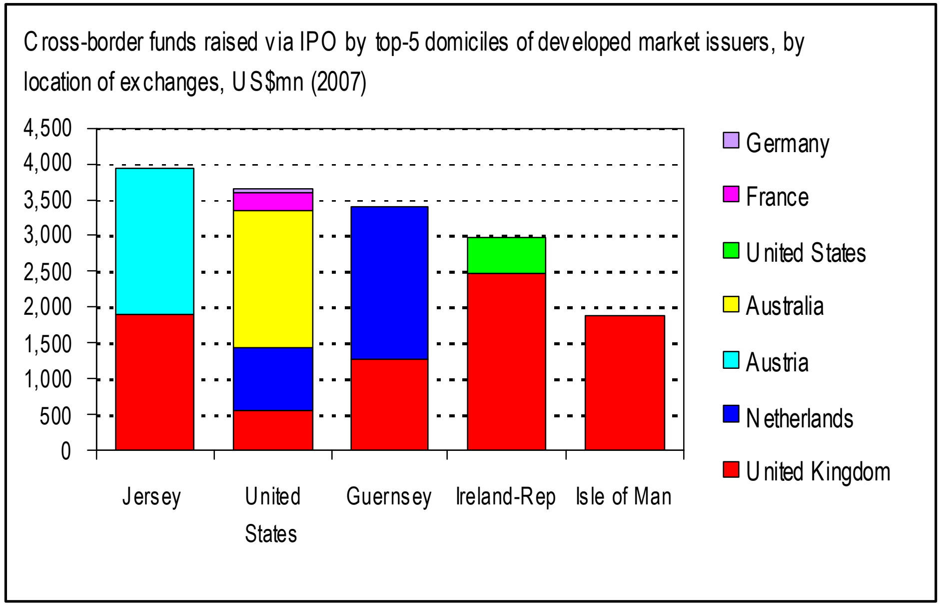




More developed market issuers opted for overseas listing

- Although issuers in the developed markets continued to favor local listings, there has been an increasing amount of funds raised through cross-border IPOs in recent years. Between 2003-2007, IPO funds raised by developed market issuers in overseas exchanges increased dramatically from US$0.4 billion to US$20.2 billion. During the period between 2003 and 2007, 291 developed market issuers looked beyond their own borders to list their shares, raising proceeds of US$41.8 billion, or 19% of the total cross-border funds raised.
- Companies which came to the market from the developed world were much smaller in scale than their EM counterparts, given that most of the EM economies are still in the early stage of publicly listing their large-scale corporations and state-owned enterprises. The size of a cross-border IPO offered by developed market issuers over the past 5 years averaged only US$149 million, compared to US$325 million for their EM counterparts. In 2007, none of the 93 cross-border IPOs launched by developed markets issuers exceeded US$2 billion in size, compared to 4 out of 204 offered by EM issuers.
- The British dependency of Isle of Man, Guernsey and Jersey as a group is the largest source of cross-border IPOs in the developed world, accounting for 46.3% of the total funds raised in 2007. In recent years, Ireland has also gained significance, accounting for 10% of the cross-border funds raised by developed market issuers in 2007. The UK is the most preferred venue for cross-border listing by developed market issuers, hosting 48% of the funds raised in 2003-2007. So far, no Asian bourse has hosted any IPO for developed market issuers.

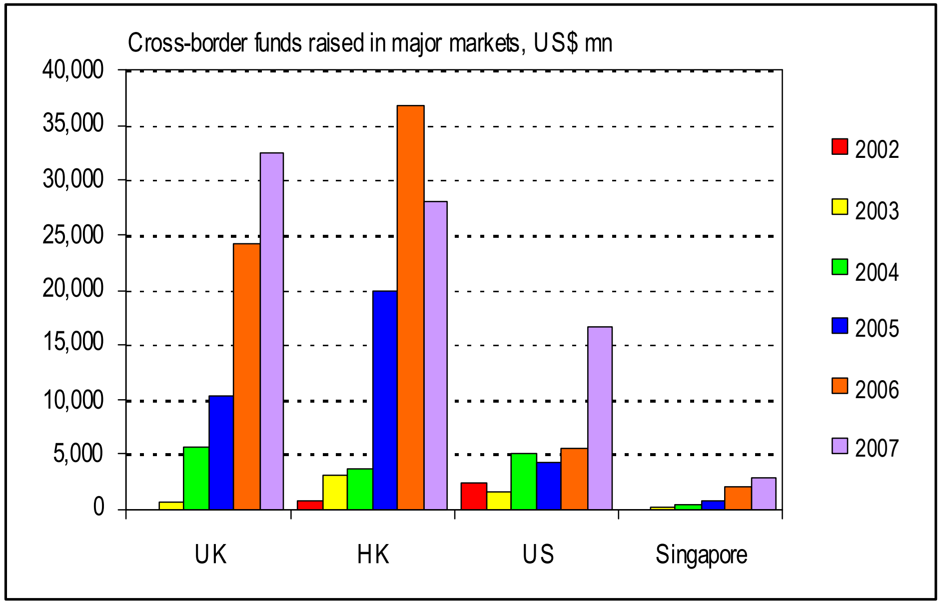




Locations of exchanges

HK and UK attracted the bulk of cross-border listings

- Cross-border IPO activities remain heavily concentrated. HK, UK, US and Singapore have been the most popular hosts for cross-border listings. Among the 4, HK and the UK led the US and Singapore by a wide margin. The 2 collectively accounted for 67% of the cross-border funds raised globally in 2007 and 54% of the cross-border deals completed during the year.
- Although HK and the UK were very close contenders in attracting cross-border IPO activities, the UK has recorded more rapid growth in cross-border funds raised between 2003-2007, expanding by an average 178% per year, compared to 74.7% for HK. In 2007, the UK regained its lead over HK as the largest host of cross-border IPOs.
- Relative to HK, the UK also enjoyed a much broader diversity of domicile origins of cross-border IPO issuers. Between 2003 and 2007, it had attracted 382 overseas issuers from 52 different domiciles, including 34 in the EMs, of which 8 are in Asia. Russian companies were the largest cross-border funds raisers in the UK. In 2007, they raised a total of US$17.1 billion, or 53% of the cross-border funds raised in the UK.
- In contrast, HK had attracted 148 overseas issuers from only 7 domiciles over the period, including the Mainland, Malaysia, Taiwan, Cambodia, Indonesia, Macao, and Vietnam, all of which are located in EM Asia. Among them, Mainland issuers alone accounted for 99% of the cross-border funds raised during the period. In 2007, Mainland issuers raised a total of US$27.4 billion in HK.

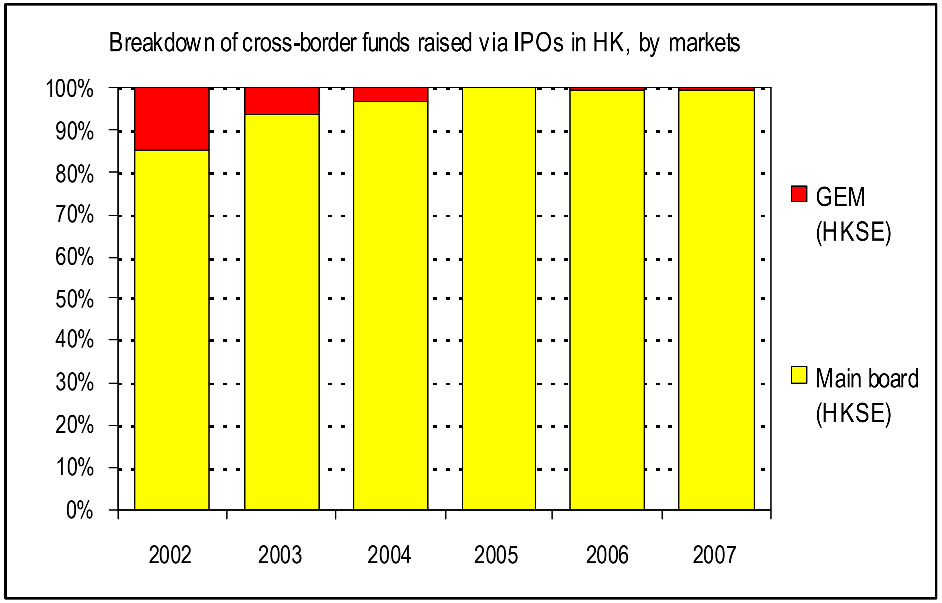


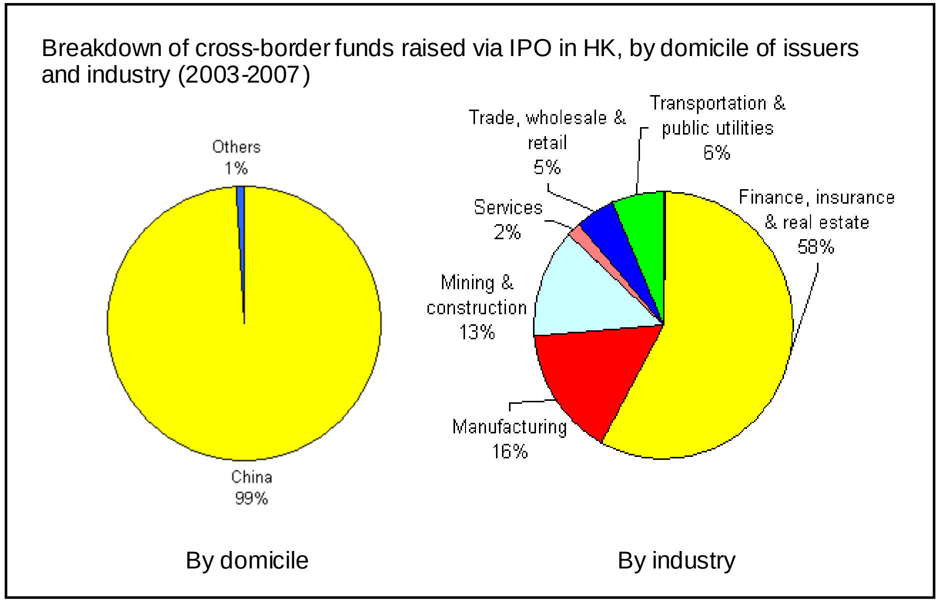
Number of domiciles of cross-border issuers in major markets (2003-2007)

Location of exchange / Domicile of issuer	HK	UK	US	Singapore
EM Asia	7	8	5	8
EM Non Asia	0	26	12	2
Developed Markets	0	18	10	0
Total	7	52	27	10

HK IPO market driven by listings of Mainland companies

- To a large extent, the growth of HK's IPO market in recent years was driven by the increase of cross-border listings by Mainland companies. More than half of the companies listed in HK in 2006 came from the Mainland, they collectively raised US$36.7 billion, or 91.1% of the total funds raised in HK, up from 67.2% in 2003. As Mainland enterprises raised less IPO funds overseas in 2007, its share in total IPO funds raised in HK declined considerably to 75%.
- The bulk of the cross-border IPO in HK was launched on the Main board of the Hong Kong Stock Exchange (HKSE), which accounted for 99% of the funds raised and 76% of the deals completed over the past 5 years. The other 24% of the issuers, mainly smaller Mainland companies, had opted to list on the GEM. A growing proportion of Mainland companies listed in HK has tapped funds in international markets. In 2003, 47.4% of the Mainland companies listed in HK also raised capital in international markets, the proportion rose to 83% in 2007.
- In recent years, an increased number of large Mainland corporations has sought listing in HK. As a result, the average size of a cross-border IPO in HK rose to US$1.12 billion in 2006 and US$622 million in 2007, up from US$150 million in 2003. In 2006, HK hosted 2 mega-size Mainland listings, including the world's largest IPO ever of ICBC which raised US$16.1 billion in HK, and the US$11.2 billion IPO by BOC (see Appendix 2). The ICBC issuance was also the first time in the Mainland that shares were dual-listed in both HK and the Mainland simultaneously.

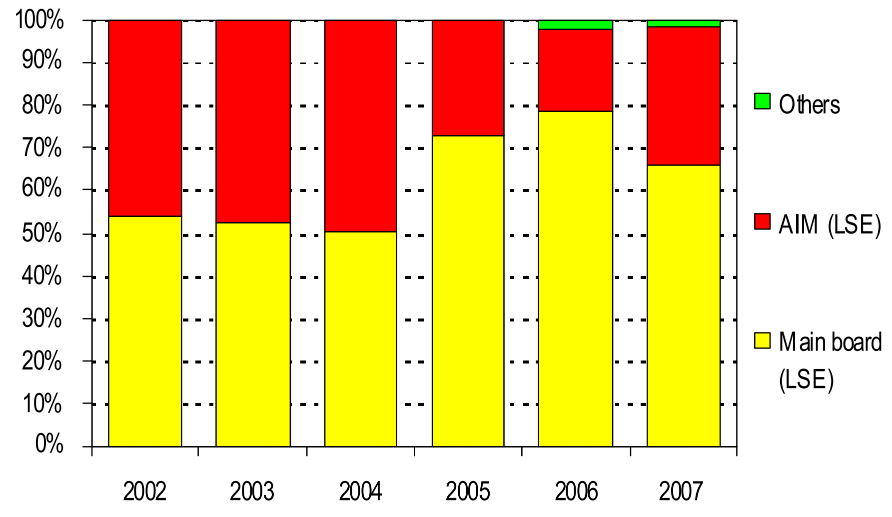




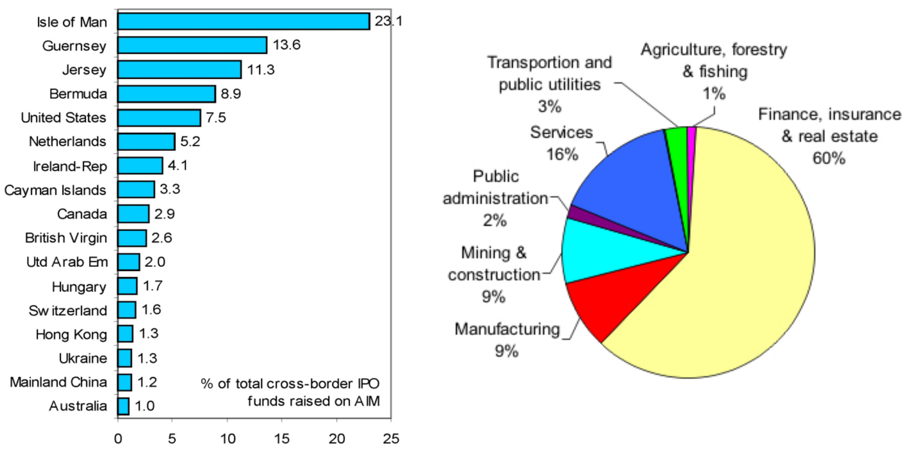
AIM hosted 80% of the cross-border deals completed in the UK

- The UK has come a long way in securing its leading position in cross-border IPO. At the peak of the tech boom in 2000, only 12 cross-border IPOs were launched in the UK, compared to 78 in the US. In 2006, the UK overtook the US and became the world's largest cross-border IPO market by number of deals, attracting 85 foreign issuers to the country, compared to 21 in the US.
- The surge of cross-border listing in the UK is closely tied to the growth of the AIM which hosted 77.8% of the cross-border IPO deals completed in the UK over the past 5 years. AIM is the second board of the LSE which imposed less stringent regulations. By keeping costs low and obligations light, AIM has been extremely successful in attracting smaller companies.
- In 2004, AIM accounted for 49.7% of the cross-border funds raised in the UK. Its share, however, declined noticeably in the last 2 years to 19.8% in 2006 and 32.3% in 2007, as several large Russian companies sought listing on the Main board, including mining giant OAO Rosneft which raised more than US$10 billion in 2006 and OAO VTB Bank which raised close to US$8 billion in 2007. On average, the size of a cross-border IPO deal on AIM is US$77 million, only 11% of that on the Main board.
- Foreign companies listed on AIM came from a variety of 43 domiciles, of which the 3 British dependencies including Isle of Man, Guernsey and Jersey accounted for 48% of the total cross-border funds raised on AIM over the past 5 years. Companies domiciled in offshore financial centres including Bermuda, Cayman Islands and BVI also accounted for a significant 15%. 35% of the foreign companies coming to AIM over the past 5 years were from the finance, insurance and real estate sector, they accounted for 60% of the funds raised.

Breakdown of cross-border funds raised via IPOs in the UK, by exchanges



Cross-border funds raised via IPO on AIM, by domicile of issuers and industry (2003-2007)

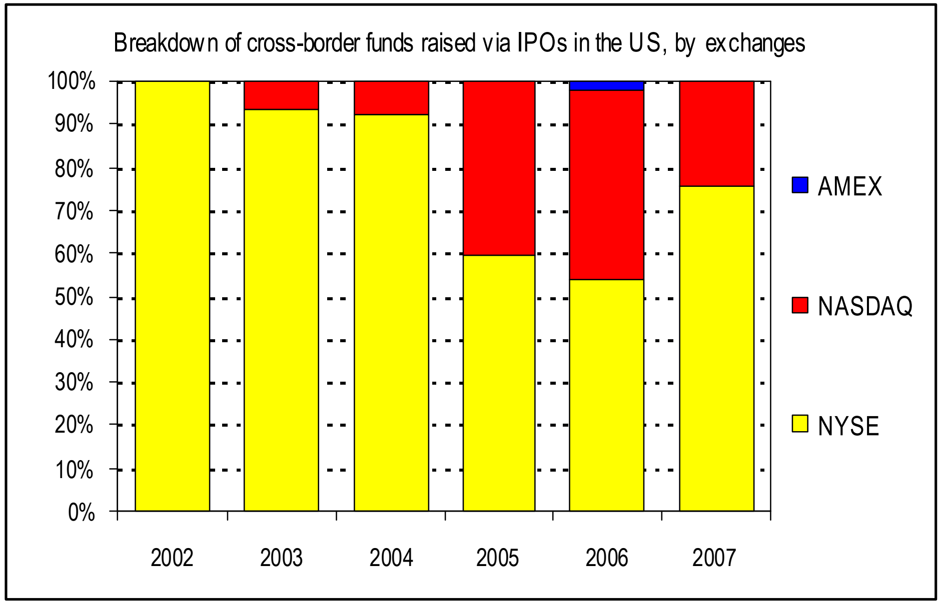


By Domicile

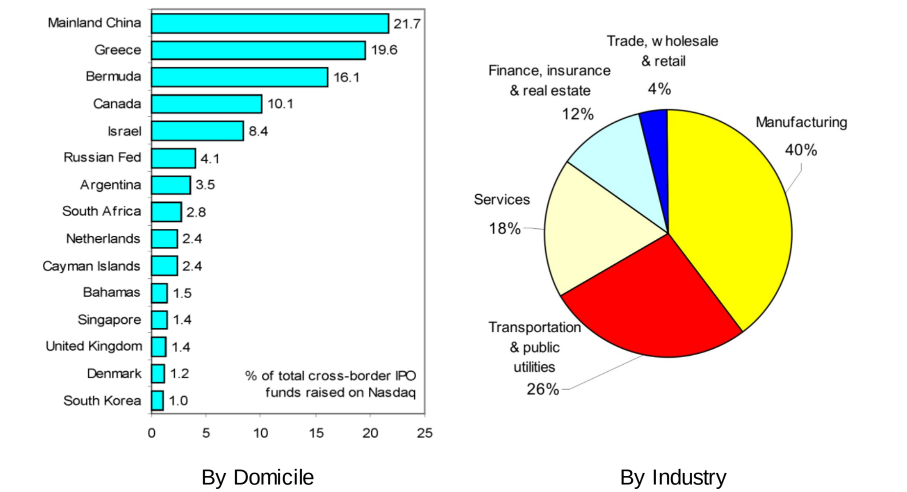
By Industry

NASDAQ diversified to attract more cross-border listings

- The US had been the preferred centre for cross-border listing until recent years when a series of corporate scandals prompted the implementation of stricter reporting standards which put international issuers off listing in the US. Meanwhile, liquidity available in other exchanges, particularly in the UK and HK, has been on the rise, posing extra challenge to the US. In 2007, the US accounted for only 18.5% of the global cross-border funds raised, down from 29.3% in 2003.
- The bulk of US cross-border listings took place in the NYSE, which accounted for 76.5% of the funds raised and 39% of the deals completed over the past 5 years. The NASDAQ, which virtually disappeared in cross-border IPO right after the bursting of the tech bubble in early 2000s, has regained foothold in the past 3 years as it diversified away from its traditional focus on technology industry into manufacturing, healthcare and media companies. NASDAQ shared 24.8% of the cross-border funds raised in the US in 2007.
- With increasing cross-border issues, companies domiciled in the Mainland accounted for a sizable 21.7% of the cross-border funds raised in NASDAQ over the past 5 years.
- Apart from IPO of common shares, foreign companies also raise funds in the US through issuing American Depositary Receipt (ADR). During 2002-2007, funds raised through ADR reached US$16.4 billion, equivalent to 58% of the cross-border IPO funds raised on the Main board of the NYSE. The Mainland accounted for one-third of the ADR funds raised in the US during the period.

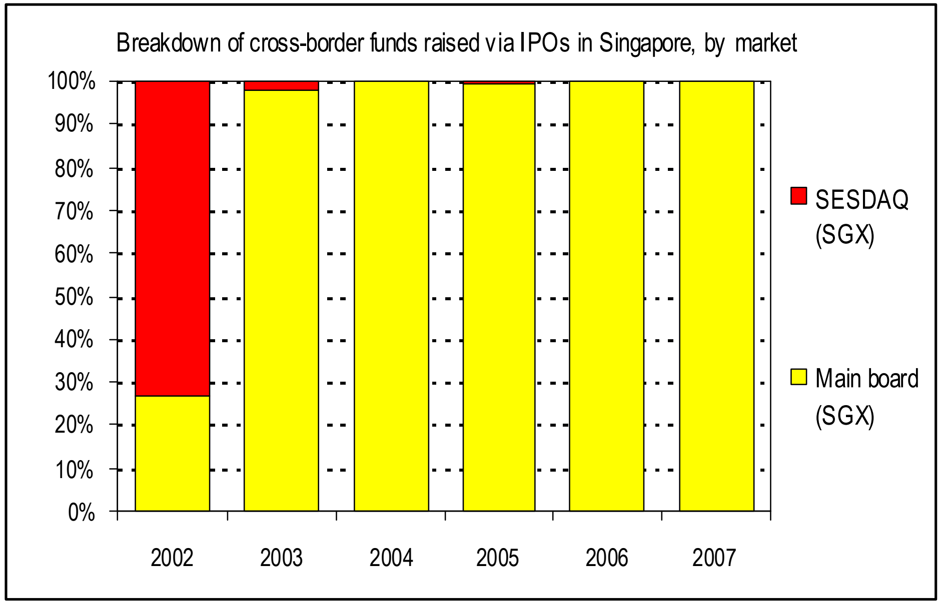


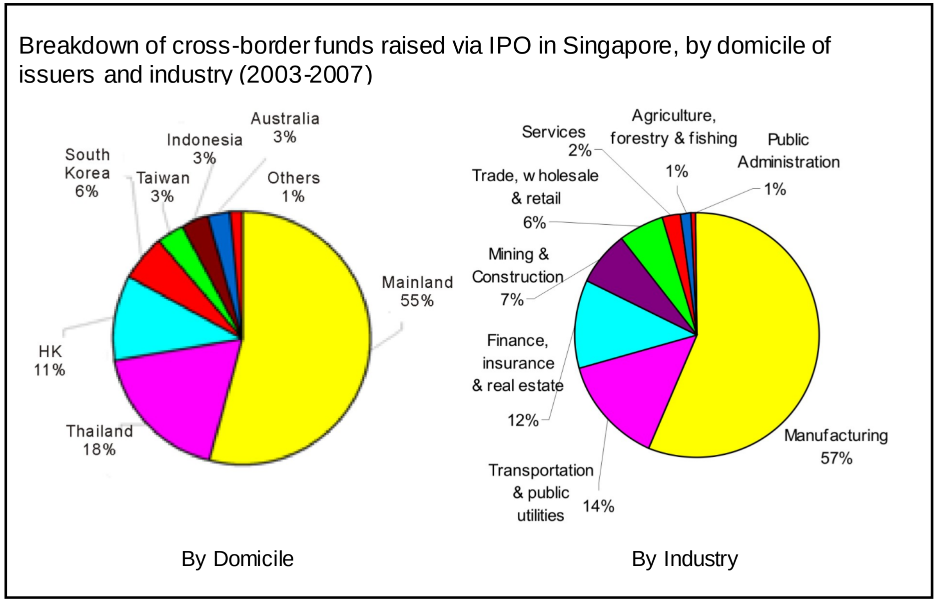
Cross-border funds raised via IPO on NASDAQ, by domicile of issuers and industry (2003-2007)



Singapore has become more active in the cross-border IPO market

- Bolstered by active marketing effort abroad to attract overseas issuers, Singapore has recently become more active in the cross-border IPO market. During the past 5 years, 131 foreign companies were listed in Singapore, exceeding 129 of the US. In 2007, Singapore accounted for 3.1% of the global cross-border funds raised and 13.2% of the deals completed. The bulk of cross-border activities in Singapore was launched on the Main board of the Singapore Stock Exchange (SGX). Foreign issuers have been relatively inactive in the second board of SGX, i.e. SESDAQ, which completed only 4 cross-border IPO deals over the past 5 years.
- Foreign companies listed in Singapore mainly came from the Mainland, which accounted for 53.9% of the cross-border funds raised and 69.5% of the deals completed over the past 5 years. HK issuers also played a significant role in foreign listing in Singapore, but most of the IPO by HK companies in Singapore were small in scale. In 2007, the average IPO size of HK companies listed in Singapore was US$68 million, compared to the US$244 million average IPO size of local listings in HK, suggesting that mainly smaller HK companies opted to list in Singapore in favour of HK.
- Cross-border listings in Singapore consisted mainly of manufacturers. More than half of the cross-border funds raised in Singapore over the past 5 years was for the manufacturing sector. In 2006, the sector accounted for nearly two-thirds of the cross-border funds raised, driven mainly by the US$1 billion listing of Thai Beverage which is also the largest IPO launched in Singapore in recent years. In 2007, the sector continued to account for half of the cross-border funds raised.





Part 2.

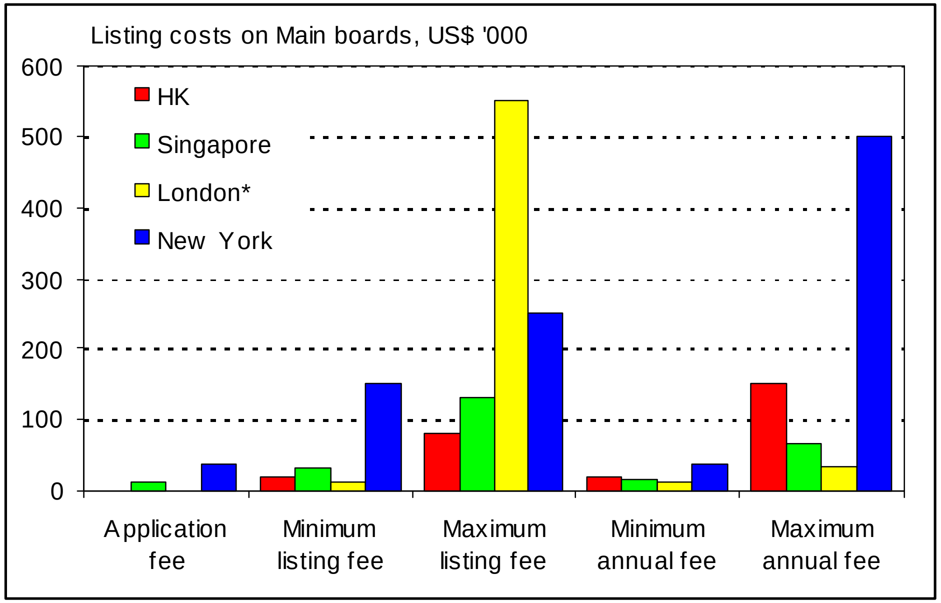
Hong Kong's Regulatory Regime

Comparative overview *

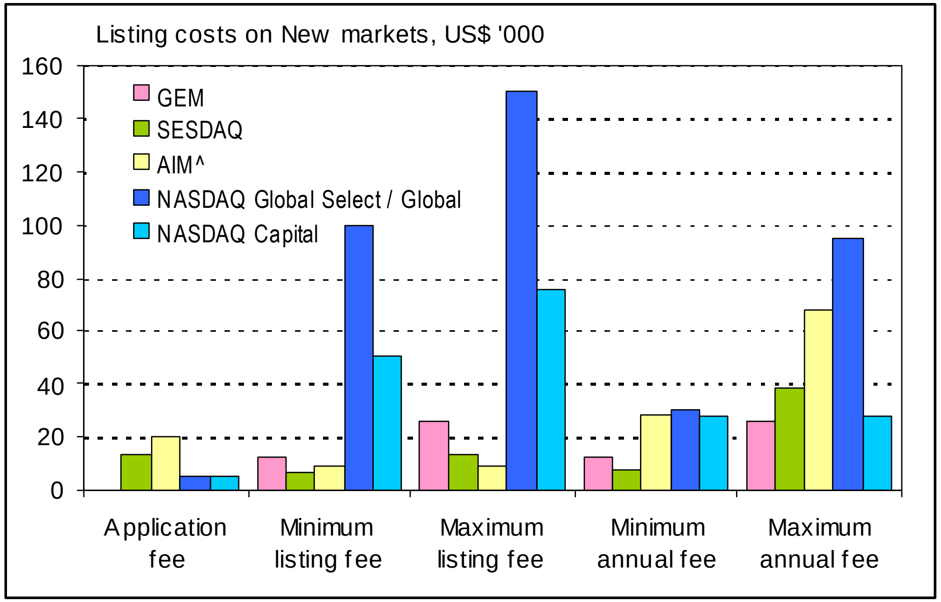
** Detailed line-by-line comparisons see Appendix 4 and 5*

HK listing costs are one of the lowest

- HK enjoys one of the lowest listing costs among the markets under study (see Appendix 4). Moreover, the intermediary fees charged in HK are also lower. For example, investment banks in HK levy a 2.5% fee against 7% in the US. Among those listed in HK in 2007, Kingsoft and Alibaba both cited lower listing cost in HK relative to New York and London as one of the reasons for their decision to list here.
- HK does not levy an application fee, neither does the Main board of London. However, the listing fee charged by HK's Main board is capped at US$83,227 (HK$650,000), which is lower than London, Singapore and New York. As for annual fee, although the maximum fee charged by HK's Main board is higher than that of London and Singapore, the fee is less than one-third of that charged by New York.
- Among the New markets, the GEM also charges the lowest initial listing costs, which can go as low as US$12,804 (HK$100,000). This is only 65% of the minimum listing cost of US$19,608 (S$30,000) charged by the SESDAQ, which is the sum of a US$13,072 (S$20,000) application fee that is not required for GEM and a US$6,536 (S$10,000) minimum listing fee.
- While fees levied on HK IPOs appeared to be more competitive, there is no room for complacency as other bourses are quick to respond to demands for lower fees to attract listings of small-and-medium size companies. Data from Financial Times showed that in 2006, companies listed in the US during the year incurred 23% less costs than 2005, and listing cost is expected to go down further as the exchanges are conscious of the increasing competition for IPO issuers.



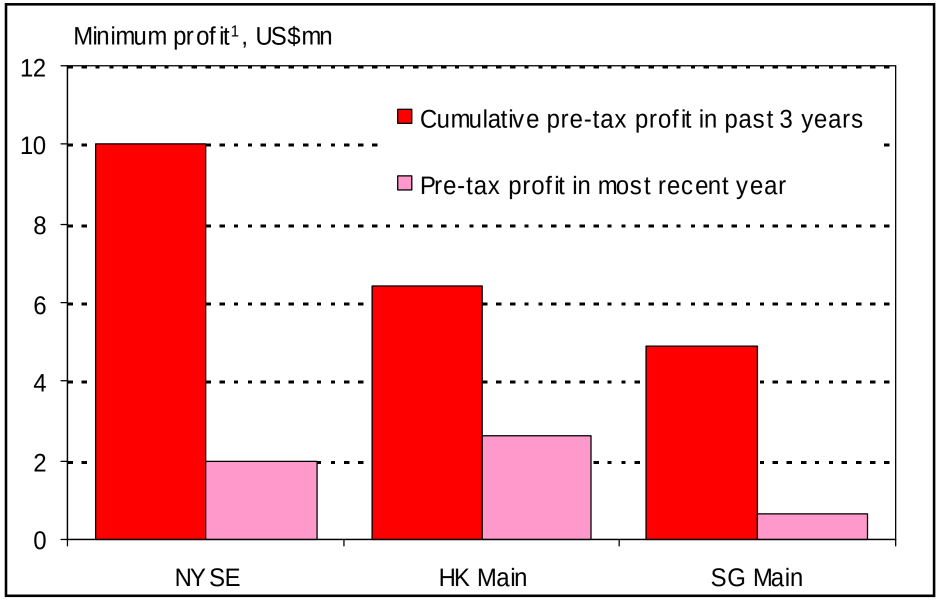
*Fees charged on International companies



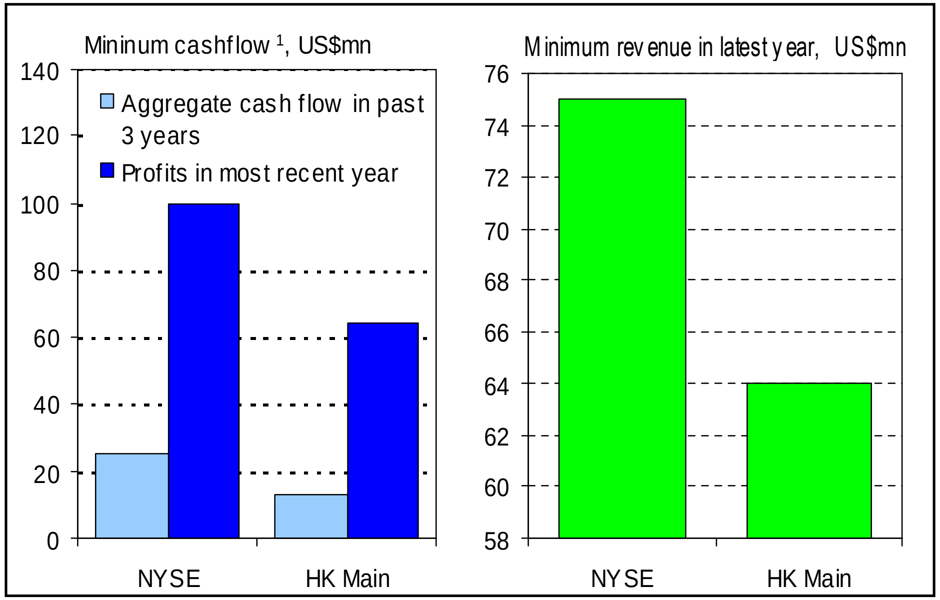
^Application fee payable by Nomads, listing fee payable by issuer; Of the sum of annual fee, a fixed amount of US$8,892 is payable by the issuer.

But IPO applicants face higher financial requirements

- Among the markets under study, HK attaches relatively higher importance to the track record of listing applicants (see Appendix 5a). While the Main boards of HK, London, New York and Singapore all impose a minimum 3-year operating history requirement, the financial requirements of HK are more stringent than those of London and Singapore. An IPO applicant has to meet either a profit or a cash flow requirement to qualify for listing in HK, same as in New York. Those which fail to meet either requirement will have to have at least US$64 million (HK$500 million) in revenue during the most recent financial year to qualify for listing.
- While Singapore also maintains a profit requirement, companies having at least US$52 million (S$80 million) market capitalization are also welcome to list there, even if they cannot meet the minimum profit required. London, on the other hand, does not impose any requirement on profit or cash flow. IPO applicants are only required to have sufficient working capital for the next 12 months to qualify for listing on London's Main Board.
- Among the New markets under study, only GEM imposes a compulsory operating track record requirement of at least 12 months. NASDAQ waives the minimum operating history requirement for companies listing shares worth at least US$75 million or having at least US$75 million in total assets and total revenue. Companies listing on SESDAQ are only required to show the IPO funds are needed to finance a project or develop a viable new product. AIM, on the other hand, leaves the decision on whether a company is suitable for listing to the nominated adviser (Nomad).



[1]Both cumulative and most recent year pre-tax profit levels must be met.; NYSE figures based on non-US domestic standards.



[1]Both cash flow and revenue levels must be met.
Note: A company can also qualify for listing if it meets the minimum profit and revenue requirements.

Issuers are also subject to tighter corporate governance rules ……

- Most of the markets under study impose strict corporate governance requirements on listing companies but to different degree. New York requires the majority of the listing company's board members be independent directors, while HK requires at least 3 and Singapore requires at least 2. London distinguishes between large and smaller companies, requiring the former to have majority of the board comprised of independent directors and the latter to have at least 2 independent directors (see Appendix 5b).
- HK further requires at least one of the independent directors to have appropriate professional qualifications (such as accounting or related financial management expertise). Singapore, meanwhile, requires at least 2 of its independent directors be Singapore residents effective January 1, 2008.
- Compliance with corporate governance codes of the respective exchanges is mandatory only for companies seeking listing in New York. In HK, Singapore and London, issuers must disclose their own practice and explain areas of deviation from the exchanges' codes. But it is the opinion of market intermediaries that in practice HK's disclosure requirement is stricter than it is said in the rules; they would therefore warn their clients that compliance is "mandatory for most companies".
- Compliance with corporate governance rules entails cost which is a significant consideration for listed companies. The stricter corporate governance rules imposed in the US since the introduction of the Sarbanes-Oxley Act (SOA, see table) in 2002 is said to have put a drag on the attractiveness of its exchanges to IPOs and led to a decline in listings in New York in 2005 and 2006.

What is Sarbanes-Oxley?

The Sarbanes-Oxley Act (SOA) of 2002 specifically holds senior management, i.e. CEOs and CFOs, accountable for accurate reporting and requires that they validate both the financial statement and the way it was prepared. It provides significantly enhanced enforcement tools to encourage compliance. The SOA includes 11 sections, or titles, that address a broad scope of corporate and governance issues, including the following:

- Creation of the Public Company Accounting Oversight Board (PCAOB) to oversee audit of public companies. The PCAOB will release guidelines for carrying out compliance with SOA. It will conduct inspections of public accounting firms, enforce compliance, and conduct investigations and disciplinary proceedings against public accounting firms.
- Requirements for auditor independence and corporate responsibility, including certification of company reports, forfeiture of executive compensation and trading profits, and insider trading and blackout periods.
- Enhanced financial disclosures, including off-balance-sheet transactions, requirements for accelerated insider reporting, disclosure of management's assessment of internal controls and rapid disclosure of financial changes.
- Corporate and criminal fraud accountability.
- Expanded penalties for white-collar crime.
- The requirement that the corporate tax return be signed by senior management.

…… as well as tougher minimum public float requirement

- All the markets under study maintain a minimum public float requirement (see Appendix 5c). HK requires companies listed on both the Main and GEM boards to maintain a minimum public float ratio equivalent to 25% of issued shares, although companies with market capitalization above US$1.28 billion (HK$10 billion) can maintain a lower 10-15% public float ratio.
- The 25% minimum public float requirement of the Main board of HK is at par with that of the Main boards of Singapore and London. Among the New markets under study, however, the 25% minimum public float requirement of the GEM is the highest. This tends to deter growth companies from considering listing in HK because founding shareholders may not be willing to give away such a big chunk of the company's value during the early stages of its growth path. SESDAQ maintains a lower minimum requirement of 15%, while AIM does not require any minimum public float and NASDAQ only specifies a certain amount of shares. Outside of the markets under study, other New markets in Europe also have lower minimum public float requirements (see table).
- In May 2007, the HKEx noted that the higher minimum public float requirement of HK relative to the US and Europe is seen to be discouraging potential issuers from listing in HK. This is particularly true in the case of Mainland companies, which due to a large proportion of non-tradable shares owned by the government, may find it difficult to meet the minimum public float requirement. The HKSE is thus considering to follow what the US does and change the minimum public float requirement of HK to a specified number of shares in order to catch up with international practice.

Minimum public float requirements of New Markets	
Hong Kong GEM	25% of issued shares
Singapore SESDAQ	0.5 mn shares or 15% of issued shares
London AIM	No minimum requirement
New York NASDAQ Global / Global Select	1.1-1.25 mn shares with US$8-70 mn market value of shares depending on market tier and entry standard
New York NASDAQ Capital	1 mn shares with US$5-15 mn market value of shares depending on entry standard
Korea KOSDAQ	10% of issued shares
Tokyo MOTHERS	1,000 shares
Paris Alternext	US$3.2 mn market value of shares
Frankfurt OPEN	No minimum requirement
London PLUS	No minimum requirement
Toronto Venture	10% of issued shares

Main areas of concerns

Some aspects of HK listing rules seen as unjustifiably tough

- A common complaint by IPO intermediaries about HK's regulatory regime is that some aspects of our listing rules are seen as unjustifiably tough.
- For example, the connected transactions rules of HK are one of the toughest in the world. HK's definition of "connected persons" widely includes all sorts of family interests, related trust interests and controlled company interests (see table). This is meant to enhance protection of minority shareholders against the predominant business nature of HK companies where family ownership is prevalent. But in Singapore, while family controlled corporations are also commonplace, the country's connected transactions rules apply to a much narrower group of "interested party" including director, chief executive, controlling shareholder, and their associates only.
- Another area where HK rules are seen as excessively tough is the long list of instances where business decisions of listed companies require approval from shareholders (see table). According to several market intermediaries, some of their clients feel these requirements make it more costly to operate listed vehicles in HK.
- The rules treating reverse takeovers as newly listed companies and the banning of spin-off within 3 years of a parent company's original listing are also deemed as too rigid, if not obstructive, from a commercial perspective, as they discourage prospective issuers (mainly Mainland private enterprises) from reactivating shell companies as a way to list their business in HK. There appears to be no such impediment in other major exchanges.

Rules perceived to be tougher than other more developed markets

Definition of "connected person"

- (1) Director, chief executive or substantial shareholder of the issuer
- (2) Any person who was a director of the issuer in the preceding year
- (3) Any promoter or supervisor of a PRC issuer
- (4) Any "associate" of a connected person described in (1)-(3). "Associates" include the following: (a) entities that have entered into agreement / understanding / undertaking with any of the connected persons described in (1)-(3); (b) a company under the control of the trustee of a trust of which the connected person or any of his family interests is a beneficiary or discretionary object; (c) direct relatives, step parents/children, grandparents/children, in-laws, uncles, aunts, cousins, nephews & nieces of a connected person
- (5) Any wholly-owned subsidiary of the issuer
- (6) Any subsidiary of a non wholly-owned subsidiary of the issuer

Business decisions requiring shareholder approval

- Major transactions refer to (1) acquisitions by a listed issuer where any of the 5 percentage ratios (for asset, profits, revenue, consideration and equity capital ratios*) is between 25% - 100%; (2) disposals by a listed issuer where any of the 5 percentage ratios is between 25% - 75%.
- Very substantial acquisition (any of the 5 percentage ratios > 100%) or disposal (any of the 5 percentage ratios > 75%)
- Reverse takeover / back door listing
- Spin-offs
- Directors' service contracts which exceed 3 years
- Second or subsequent refreshments of general mandates

Policy on reverse takeover

- A listed issuer proposing a reverse takeover will be treated as if it were a new applicant

Policy on spin-offs

- No spin-off allowed within 3 years of parent's original listing
- The parent must prove to be able to retain a sufficient level of operations and sufficient assets to support its separate listing status after the spin-off of its subsidiary
- Shareholder approval as well as exchange approval must be obtained

*Assets ratio = (total assets of the transaction) / (issuer's total assets); Profits ratio = (profits attributable to the assets involved in the transaction) / (issuer's profits); Revenue ratio = (revenue attributable to the assets involved in the transaction) / (issuer's revenue); Consideration ratio = (consideration) / (issuer's total market cap); Equity ratio = (equity capital issued as consideration) / (issuer's equity capital before the transaction)

Discrepancies between rules and practice are allowed at times

- Apart from the restrictive rules, potential issuers are also bothered by instances of discrepancies between rules and practice, which show a lack of transparency.
- Intermediaries often cited the requirements set forth under Rule 8.21B as an example of inconsistency between Listing Rules and what is being practiced. Introduced in 2004, Rule 8.21B prohibited any forward-looking statements not appearing in the initial listing document from being included in pre-deal researches published by the sponsor, underwriter or their associates. In practice, however, pre-deal researches are allowed to include profit forecast or other forward looking statement in a form that is not substantially the same as the one included in the prospectus (see table).
- The granting of waivers by HKSE in some other listing rules is also not uncommon, partly in response to changing market needs. For example, the requirement on disclosure of valuation and information on all the issuers' interests in land or buildings as stated in Listing Rule 5.01 is sometimes not strictly enforced (see table). Recognizing that there are difficulties in obtaining land title deeds (and hence official valuation of the property in consideration) in the Mainland for Chinese IPO applicants, the HKSE will grant waivers under reasonable circumstances. Conditions necessary to qualify for such waiver, however, are not clearly set out, leaving room for subjective deliberation by members of the Listing Division. Such practice tends to encourage issuers or intermediaries acting on their behalf to apply for waivers whenever rules are unclear, adding to the administrative cost and processing time of the IPO application.

Discrepancies between selected rules and practice	
Rule 8.21B "Pre-deal research issued by the sponsor, each of the underwriters or their respective associates must not incorporate any profit forecast or other forward looking statements unless such statements are included, in substantially the same form, in the new applicant's listing document."	Practice Deviation from Rule 8.21B is accommodated if the prospectus includes a profit forecast and sponsors and other relevant parties are able to ensure the following: • All material information received by their analysts will appear in the prospectus • Pre-deal research will be restricted to professional advisers • If it can be reasonably assured that the pre-deal research is unlikely to affect the investment decisions of the general public
Rule 5.01 "Valuations and information on all the issuer's interests in land or buildings are to be included in a listing document issued by a new applicant."	Practice Deviation from Rule 5.01 is allowed if: • Land or building in consideration is not materially representative of its total assets • The issuer can prove that the land or building in consideration is not crucial to the issuer's main business

Unpublicized practices are also found

- Requirements not clearly spelled out in the Listing Rules but nevertheless enforceable in practice can also be found, which some market participants feared might breed abuse of regulatory power.
- The non-competition undertaking of independent directors is an example (see table). While the non-competition undertaking is not ordinarily required by the HKSE, the Listing Division does "review the delineation arrangement and arrangements for managing conflicts whether memorialized in non-competition agreements or in other ways, and the comments of the Listing Division often have a substantive effect on the corporate governance of the new applicant in this area." While these arrangements serve to clearly set out how corporate affairs will be managed for two companies controlled by a single controlling shareholder and are consistent with normal corporate governance practices, whether they are enforced usually depends on the subjective assessment of the exchange staff in charge.
- As another example, an intermediary illustrated a case wherein a Taiwanese prospective issuer's IPO bid in 2006 was unsuccessful because it was unable to meet then Listing Committee's recommendation that no more than 2 of its 9 board members should be overlapping with its parent. The intermediary noted there was no clear set of rules/guidelines stating any restrictions on overlapping board members, and it never encountered any problems in this area before, as its clients were able to list as long as the majority of board members are non-overlapping. In fact, in 2007, 2 companies with more than 20% of the board members being overlapping board members were able to list successfully in HK (see table).

Selected unpublicized practices

Rule	Practice
Requirements on directors' independency and rules on non-competition not clearly spelled out in the Listing Rules	The Listing Division may require the following on case-to-case basis: • Non-competition undertaking • Independent director review, where the independent directors undertake to review options, pre-emptive rights or rights of first refusal granted by the controlling shareholder over its existing or future competing businesses and decide whether to exercise these rights. • Undertaking by the controlling shareholder to provide all information necessary for the enforcement of the options, pre-emptive rights or rights of first refusal. • Undertaking by issuer to disclose decisions on matters reviewed by the independent directors relating to the exercise or non-exercise of options, pre-emptive rights or rights of first refusal either through the annual report, or by way of announcements to the public.

IPO issuers in HK with more than 20% of the board members being "overlapping board members" (2007)

Issuer	Month / Year Listed	No. of board members	No. of "overlapping board members"
China Agri Industries	March 2007	9	3
China Citic Bank	April 2007	15	7

Current regulatory regime is in place for good reasons ……

- While some stakeholders have raised their concern on over-regulation, there also exists an opposing view that tighter rules are in place for good reasons. Rules such as those related to "connected persons" and those concerning transactions that require shareholder approval are viewed to be particularly important in HK where family controlled corporations are commonplace. Market experiences gained over time also led to the formulation of certain rules which are seen as necessary. For example, restrictions on spin-offs were established after the market reacted negatively to the decision of a listed construction material company to spin off part of its business in less than a year of gaining its own listing status. It is, however, important to be able to strike a balance between the cost and benefit of these regulatory requirements so that prospective issuers are not discouraged from listing in HK.

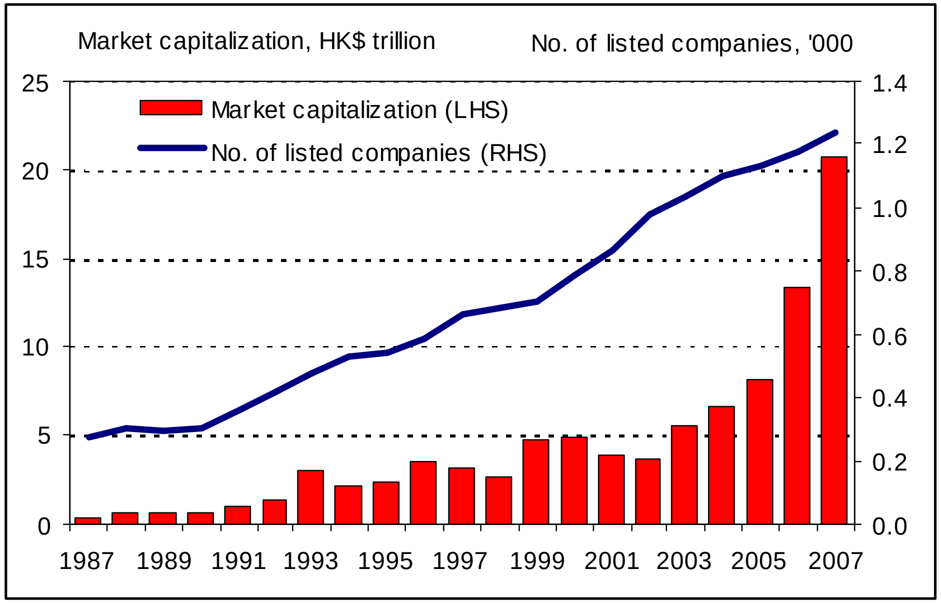
- On the discrepancies between rules and practices, it is worthwhile to point out that allowing for various degrees of departure from the rules is simply a recognition of the fact that in certain situations, rigid adherence to the Listing Rules could yield anomalous results without demonstrable benefits to the investors. Meanwhile, the practice of granting waiver also gives the Listing Committee flexibility in reacting to specific facts and circumstances and the ability to dispense with certain requirement which could be seen as overly onerous in the specific situation. It is, however, important, according to market participants, for the authorities to issue clearer guidance notes on the criteria for qualification of such waivers and supplement these with examples of precedents.

- No matter what the authorities do, issuers and their intermediaries have to be informed of the changes. Market practitioners believe the authorities need to disclose more illustrative cases for the reference of intermediaries and issuers. This will not only help clarify rules and practices, shorten the listing process and minimize related costs, but also provide an additional "check and balance" to avoid perception of abuse in regulatory powers.

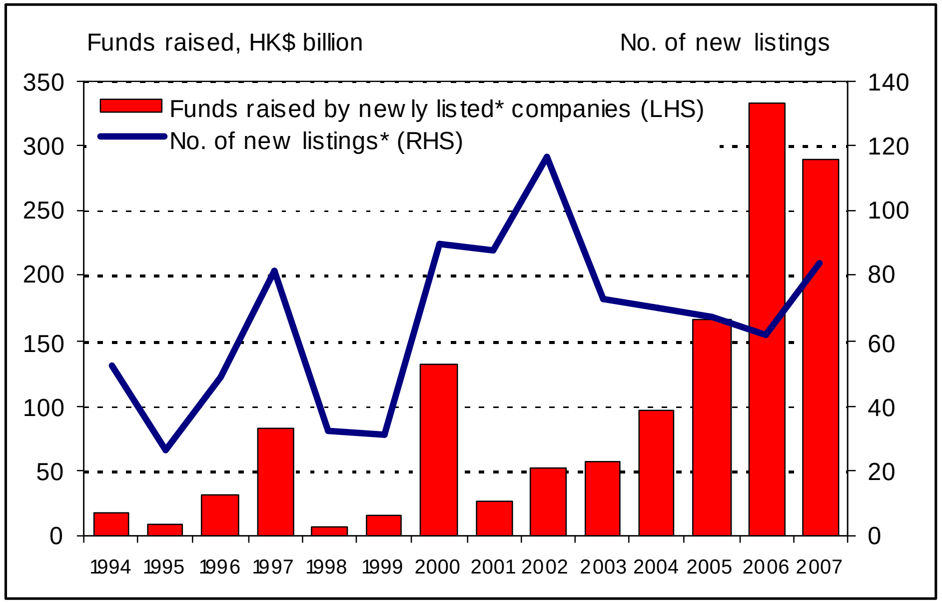
- To maintain competitiveness, it would also be in HK's best interest to keep its Listing Rules at par with those observed in other major exchanges, no more and no less. Some legal professionals believe that the regulatory set up in all exchanges are moving towards the same direction. Rules not seen in other major exchanges but exist in HK warrant serious review. Examples of these are requirement of a qualified accountant among members of the board of directors of the listing companies and the two-year moratorium on asset injection after a change in controlling shareholders. Meanwhile, there are also rules that other exchanges have adopted but HK still lags behind. An example would be the annual disclosure of reserve levels by mining companies. It is worth noting that the market capitalization of HK-listed mining companies are already among the world's highest now.

…… and is instrumental to the success of HK's equity market

- From a different perspective, companies with serious plans of launching their IPOs in HK would understand that HK's tighter rules are in place for good reasons and are generally willing to allocate the necessary resources to achieve listing because they believe the goodwill attached to being a HK-listed company is worth the time and effort.
- Instead of seeing HK as over-regulated, there are in fact views that the authorities are showing increased flexibility over the years when dealing with different nature of IPO applications. In 2006, the Listing Committee specified that it would be comfortable that a gambling activity does not violate any applicable laws as long as the issuer presents evidence to the effect that the activity is being carried out under the express authority of the government. This has facilitated the subsequent listing of a casino and another company indirectly involved in gambling. The dealing with Mainland entities, which face a very different operating environment, has also been more flexible as seen in the rising tendency of granting waivers to Rule 5.01 to Mainland IPO applicants. To these extents, the authorities are being viewed as becoming increasingly accommodating.
- The continued improvement to the listing environment has been instrumental to the success of HK's equity market over the past 20 years. However, as market conditions evolve further and investors become more sophisticated, a more market-friendly and open-mindset should be adopted when listing candidates.



Source: CEIC Data Company



Source: CEIC Data Company; *refer to all newly listed companies regardless of whether they are IPOs.

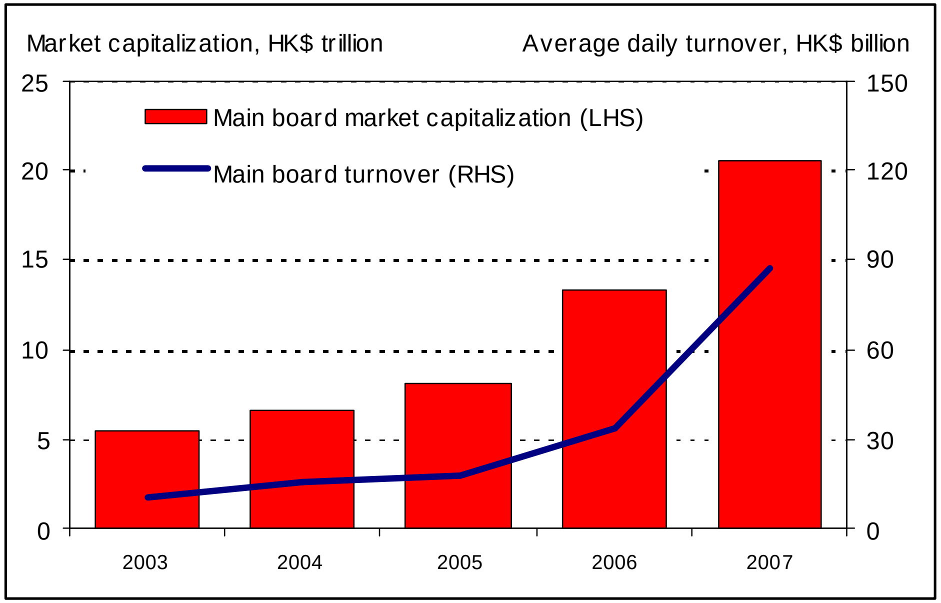
Part 3.

Are We on the Right Track?

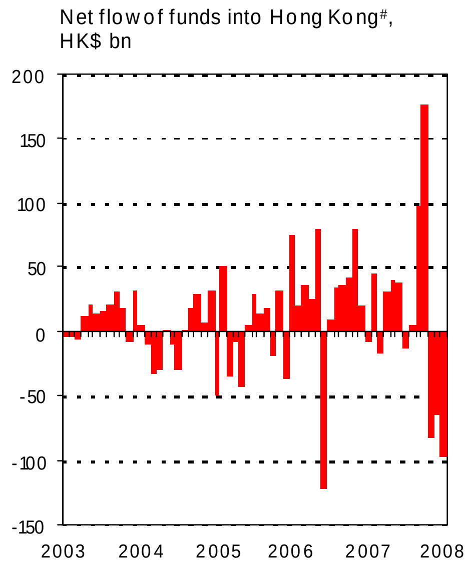
Challenges ahead

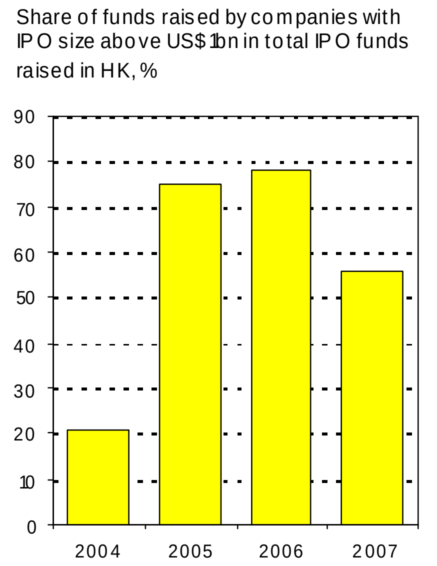
Stock market activities of HK grew sharply

- Supported by massive inflow of foreign funds on the back of lingering anticipation of further appreciation of the Renminbi, HK share prices rose sharply in recent years. During the latest stock market bull cycle, the Hang Seng Index reached a record high of 31,638 points on October 30, 2007, up by more than 70% from its level at end-2006, and more than tripled its trough in mid-2003. According to estimates of the Hong Kong Monetary Authority, net inflow of funds into HK surged to a record high of HK$175.8 billion in October 2007.
- Riding on the index rally, average daily turnover of equities listed on HK's Main board also surged to a record high of HK$165 billion in October 2007. For the entire year of 2007, average daily turnover stood at HK$87.4 billion, which is 8.5 times more than the HK$10 billion recorded in the year of 2003.
- The robust stock market performance not only drove up the market capitalization of companies that were already listed, but also encouraged the listings of more new companies, including a handful of mega-size Mainland companies, which provided a further boost to total market capitalization. In 2006, companies that raised over US$1 billion in IPO funds from HK accounted for nearly 80% of the total IPO funds raised in HK. Between end-2003 and end-2007, the market capitalization of HK's Main board expanded by nearly four times to HK$20.5 trillion.
- The achievements of HK's equity market have been impressive. All these are results of concerted efforts made by the Government, SFC, HKEx and the relevant professions.



Source: HK Exchanges and Clearing





Source: Hong Kong Monetary Authority; #Calculated as the change in HKD M3 less change in bank loans;

But HK cannot rest on its laurels

- Despite the recent stock market boom, HK cannot afford to be complacent. This is because the engines which drove HK's stock market activities to its current position, namely the influx of foreign funds which boosted share prices and turnover, and the listing of mega-size Mainland companies which boosted market capitalization, are not indefinitely bound to stay.
- Funds flow is a volatile factor and may reverse course anytime particularly with the rapid rise in the valuation of HK's listed companies. The sharp correction of share prices in early November 2007 from its record high following remarks by Mainland officials that the plan to allow Mainland residents to directly invest in HK stocks would not be materialized soon showed how share prices can be battered by the sudden reversal of funds flow and economic cycles. The "market crash" in mid-January 2008, which shaved the Hang Seng Index by 14% in just 2 days, is another example.
- Meanwhile, mega-size IPO candidates from the Mainland will also increasingly be replaced by smaller-size companies, as most of the renowned state-owned enterprises and industry leaders in the Mainland have already listed their shares. The next wave of IPOs is expected to be driven mainly by private enterprises, the scale of which would be smaller.
- Furthermore, an increasing number of exchanges are also aggressively competing for Mainland listings, posing a significant threat to HK. They include not only overseas bourses but also Mainland's own exchanges. Other factors beyond HK's control are also at play, such as policy changes in the Mainland, which could affect Mainland companies' choice of listing venue.

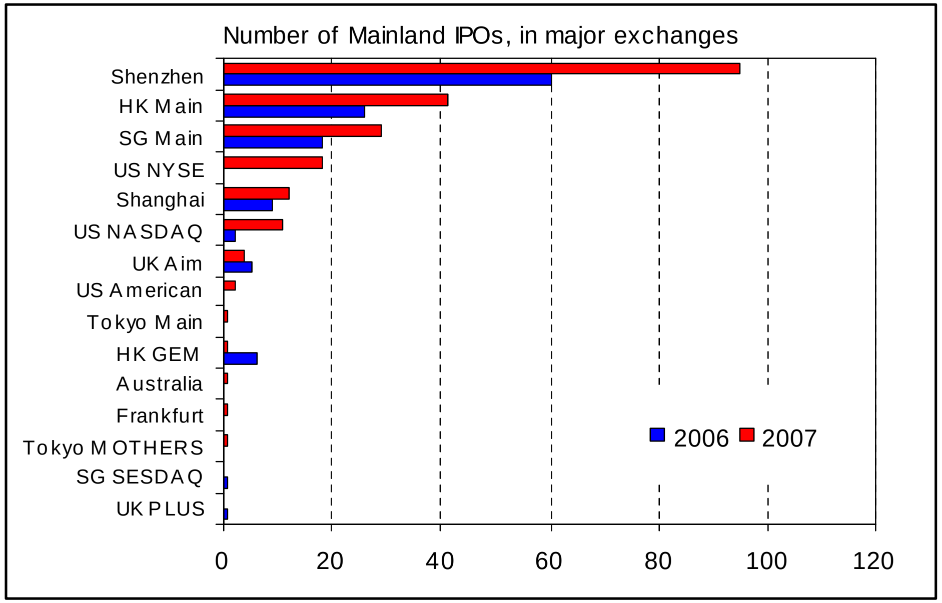
Source: Hang Seng Indexes Company Ltd.

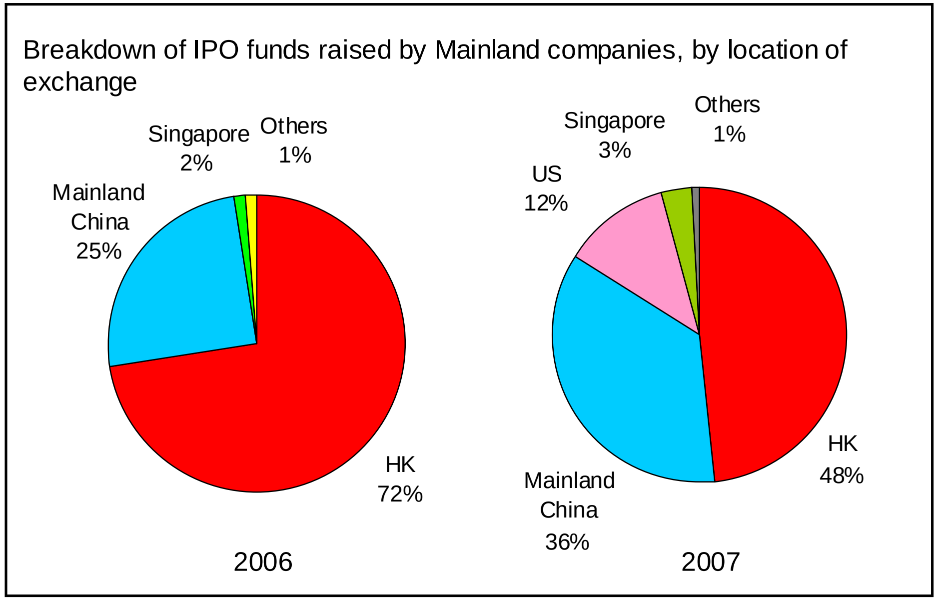
Pipeline and expected scales of Mainland IPOs in HK, 2008	
China Pacific Insurance	US$ 4-6 bn
China Reinsurance Group	US$ 2.6 bn
China Railway Construction Corp	US$ 2-3 bn
China Everbright Bank	US$ 2-3 bn
Postal savings bank of China	US$ 2-3 bn
Shanghai Automotive Co.	US$ 2-3 bn
China Southern Locomotive	US$ 2-2.5 bn
Evergrande Real Estate Group	US$ 2 bn
Ningbo Port Group	US$ 2 bn
China Post Logistics	US$ 2 bn
Bank of Beijing	US$ 1 bn
ITAT Group	US$ 1 bn
Shanxi Coal	US$ 1 bn

Source: Various media reports

Other exchanges are aggressively competing for Mainland listings

- The hosting of several mega-size Mainland listings by HK over the past 2 years has caught the attention of the world's leading and emerging exchanges, prompting them to step up effort to attract more Mainland issuers to list there.
- Apart from SGX, AIM and NASDAQ, which are no strangers to Mainland issuers, other exchanges have also gained significance. In August 2007, Korea's KOSDAQ successfully hosted the listing of the Mainland's 3NOD Digital Group. Meanwhile, a handful of Mainland issuers are also reportedly making preparations to get listed on the Tokyo Stock Exchange. Recently, Frankfurt has also joined the campaign, with 3 Chinese companies already listed on the German bourse in 2007.
- Meanwhile, the NYSE has been lowering its listing requirements to attract Greater China issuers away from rival NASDAQ. Since the setting up of representative offices by overseas bourses on the Mainland was allowed in April 2007, the NYSE even obtained permission to set up a representative office in Beijing. This made NYSE the first overseas exchange after HKEx, which set up its Beijing office under CEPA in 2003, to set up an office in the Mainland.
- In 2007, a handful of stock exchanges including Tokyo Mothers, Frankfurt and Australia Stock Exchange each managed to attract one Mainland-domiciled listing, up from none in 2006. NYSE, which failed to attract any Chinese company in 2006, hosted 18 Mainland-domiciled listings in 2007. Accordingly, the proportion of IPO funds raised by Mainland companies outside its local bourses and HK rose from 3% in 2006 to 16% in 2007.





Shanghai is also catching up quickly

- With the rapid development of the Mainland's financial system over the past years, the Shanghai Stock Exchange has been attracting an increasing number of Mainland issuers. IPO funds raised in Shanghai rose to US$15.8 billion in 2007, 114% higher than in 2006. In 2007, Shanghai hosted 5 IPOs with value above US$1 billion, and these accounted for 84% of the total funds raised last year. In 2006, only 2 of the IPO deals hosted by Shanghai exceeded US$1 billion.
- During the past 5 years, a number of Mainland companies were reported to have aborted their HK listing plans and moved to other markets, some of which opted for the local exchanges, particularly in Shanghai. These companies cited a number of reasons for their final choice of listing venue. According to China Yangtze Electric Power, which was listed in Shanghai in 2003, the IPO application process in Shanghai was much simpler than that of HK, and the requirements on accounting standards for listing companies were much less stringent. The company was also able to target for a higher P/E ratio of 18-20x with its Shanghai listing, compared to an estimated lower ratio of only 10x if it were listed in HK.
- Prospective Mainland issuers are also beginning to note that while listing in HK could attract more international capital, the costs are noticeably higher than in the local exchanges, even though listing fee in HK is already the lowest compared to other major exchanges such as London, Singapore and New York. A number of prospective pharmaceutical IPO issuers based in Jilin estimated that listing on GEM would cost about 10-15% of the IPO proceeds, compared to 5% in the Mainland.

Companies reported by local media to have aborted plans to list in HK (2002-2007)

Issuer	Place of issue	Month/ Year	Proceeds (US$ mn)
China Yangtze Electric Power	Shanghai	Oct-2003	1,210
Bio-Treat Technologies	Singapore	Feb-2004	64.3
Fibrechem Technologies	Singapore	Apr-2004	25.9
Hsu Fu Chi International	Singapore	Nov-2006	68.6
Simcere Pharmaceuticals	New York	Apr-2007	226.6
Canton Property	London AIM	2008	490

Companies reported by local media to be reconsidering their HK listing plans (2007)

Issuer	Alternative place of issue being considered	Estimated size of issue (US$ mn)
Jinduicheng Molybenum	Shanghai	1,000
China Minsheng Bank	Shanghai	1,000

Policy changes in the Mainland could affect IPO activities in HK too

- Apart from increased competition for Mainland issuers from other exchanges, policy changes in the Mainland also have a significant impact on Mainland IPO activities in HK.
- The decline in the amount of IPO funds raised for Mainland companies in HK in 2007 was in part caused by policy changes in the Mainland, which are beyond HK's control (see news excerpts). Chongqing Lifan Holdings, a privately owned motorcycle maker, which announced its plan to list in HK in March 2007, changed its mind in June and decided instead to launch its IPO in Shanghai in the second half of 2007. The company indicated that it cancelled its HK listing plan because obtaining approval for local listing in the Mainland was easier and faster than for overseas listing.
- In 2007, 35.6% of the total IPO funds raised by Mainland companies were done in the local markets, up noticeably from 25% in 2006. During the same period, the proportion of IPO funds raised by Mainland companies in HK declined considerably to 48.2% from 72.6%.
- Given that the Mainland is the largest single source of IPO issuers for HK, which accounted for 53% of the companies listed in HK in 2007 and 75% of the total funds raised in HK during the year, the listing of more Mainland companies on the local exchanges had led to a 10% decline of IPO funds raised in HK in 2007 to US$36.3 billion, from US$40.3 billion in 2006.

News excerpts

China to limit share listings in Hong Kong
(Dow Jones, 2007-04-15)

Chinese regulators will limit the number of mainland companies listing their shares solely in Hong Kong in a bid to encourage enterprises to join Chinese bourses, a report said Monday. Beijing has introduced an unofficial policy allowing Chinese companies to list in the city only if they seek more than $1 billion, an amount that can hardly be met by middle-sized firms, or plan a simultaneous listing on the Mainland, the Financial Times reported, citing unnamed investment bankers and regulatory sources.

The report said the policy is designed to force a large majority of listing candidates to become A-shares by joining the Shanghai or Shenzhen bourses instead of in Hong Kong. Policymakers believe that increasing the number of listed A-share companies will help mop up excess liquidity and prevent a stock market bubble in China, it said.

They are also concerned that Chinese investors cannot benefit from the growth of some of the Mainland's fastest-growing companies if they are allowed to list solely in Hong Kong. Hundreds of Chinese companies have listed their shares in the southern Chinese territory in recent years amid a long slump in the Mainland markets. But a resurgence in Mainland exchanges, the benchmark index climbed 130% last year, fuelled by intense investor demand has prompted a re-think in Beijing over which companies to allow to list as H-shares in Hong Kong.

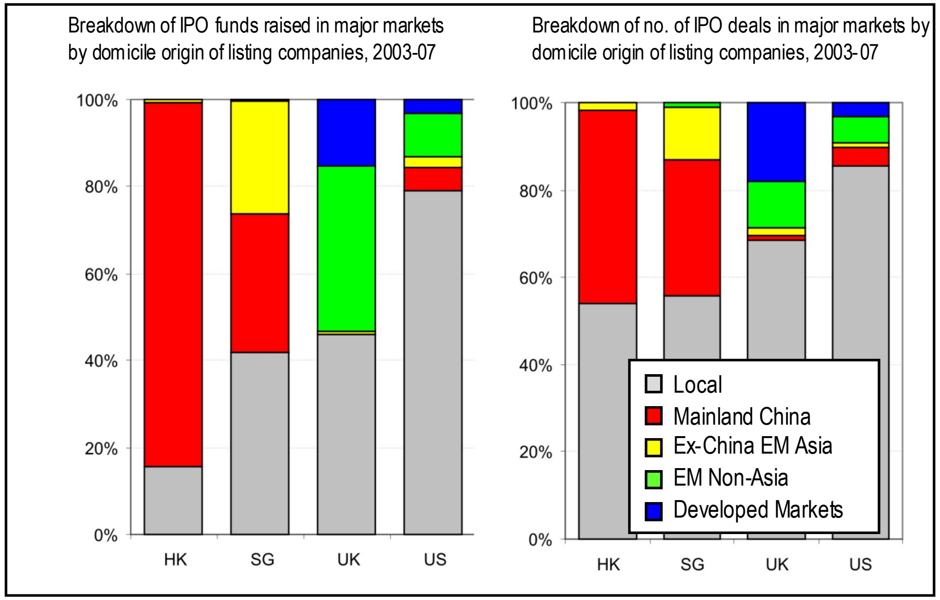
The underlying rule, set by the China Securities Regulatory Commission (CSRC), allows Mainland-incorporated companies to list overseas only if they seek to raise over $1 billion, According to CSRC spokesman Liu Fuhua, the regulator doesn't have such a rule on paper, but it is encouraging more companies to list in Shanghai and Shenzhen.

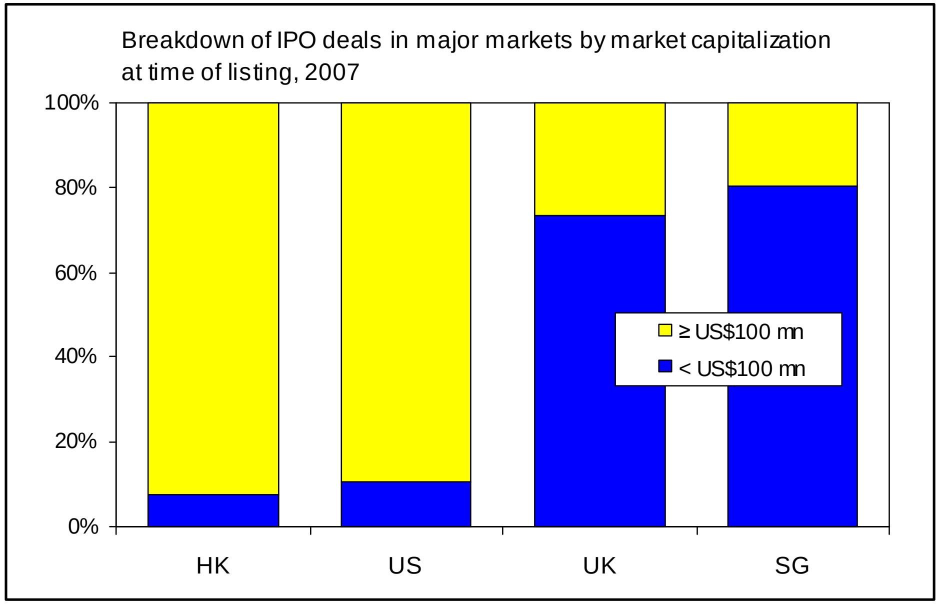
A spokeswoman for the Hong Kong Stock Exchange said it would not comment on press reports, but referred to recent remarks made by CSRC, which had denied such plans.

HK's vulnerability

HK's vulnerability lies in its narrow issuer base

- The recent stock market boom in HK is evidently liquidity-driven. It has boosted the trading and broking businesses. However, trading is not the only segment that a major financial centre should focus on. Besides, liquidity is a volatile factor and funds flow can reverse course overnight, which makes over-reliance on trading business unsustainable.
- On the deal generating side, business in HK in 2007 has lagged behind 2006, with total IPO funds raised declined by 10%. The decline of IPO activities in HK following the listing of more Mainland companies on the local exchanges and the depleting of mega-size Mainland deals reveals a key vulnerability of HK's position as a preferred IPO hub, namely its narrow issuer base.
- HK's issuer base is narrowly focused on Mainland companies. More than half of the companies listed in HK in the past 2 years came from the Mainland, they collectively accounted for 91.1% and 75.4% respectively of the total funds raised in HK in 2006 and 2007. By comparison, the UK enjoyed a much broader diversity of domicile origins of IPO issuers.
- HK's issuer base is also acutely tilted towards large-scale listings. Only 8% of the IPOs in HK had market capitalization of below US$100 million at the time of listing in 2007. In the UK, however, 73% of the 2007 IPOs consisted of smaller companies with market capitalization of less than US$100 million. The narrow issuer base is seen by market participants as hindering the future development of HK's IPO market and needs to be appropriately addressed.



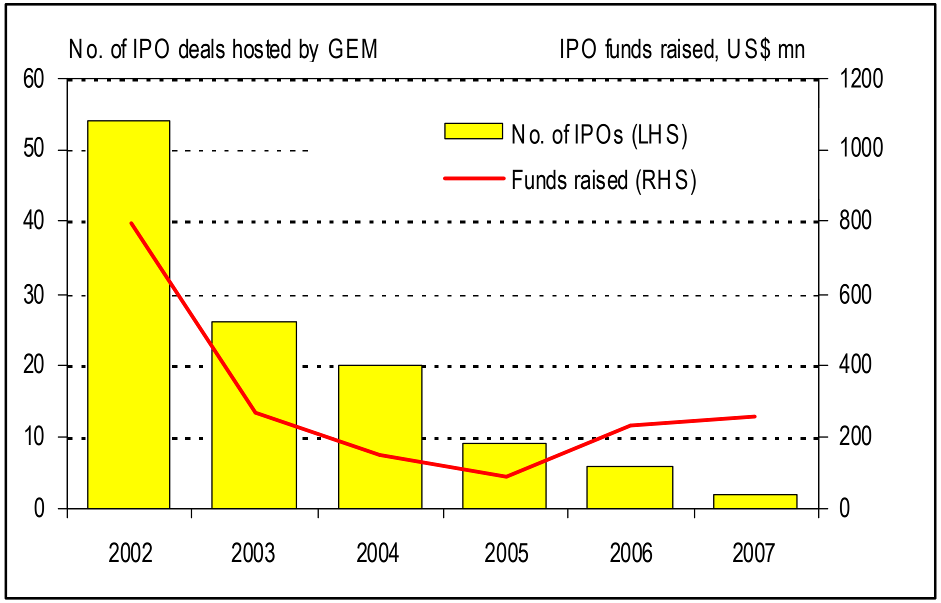


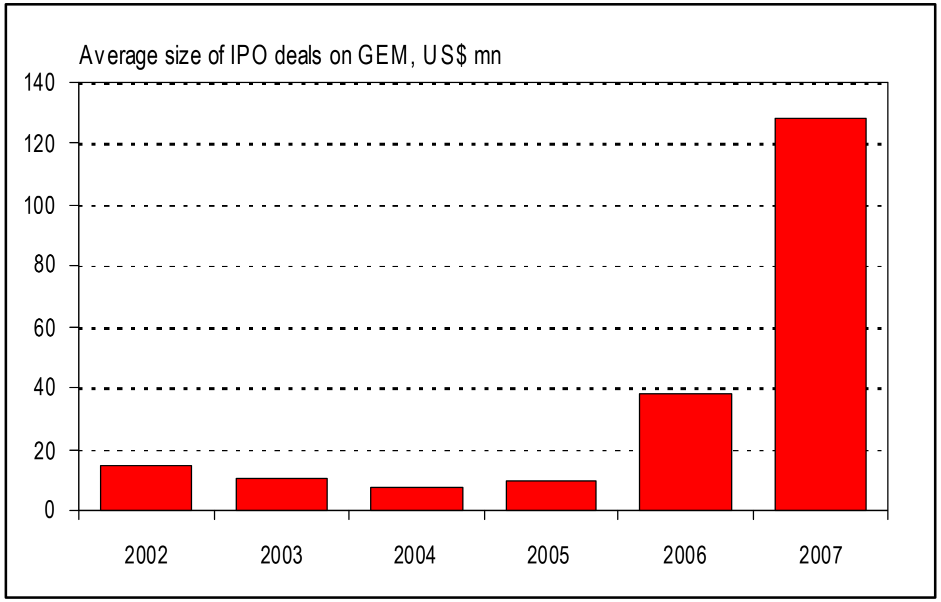
Listing rules carry a very short list of recognized jurisdictions

- Until late 2006, the Listing Rules prescribed only four jurisdictions of incorporation for the purpose of eligibility for listing, namely HK, Bermuda, the Cayman Islands and the Mainland. IPO applicants incorporated outside of these jurisdictions are "assessed on a case-by-case basis", with companies having to "demonstrate that they are subject to appropriate standards of shareholder protection". In November 2006, HKSE published a guidance note on two additional jurisdictions, namely Australia and British Columbia, Canada, indicating each to be an acceptable place of incorporation for the purpose of the Listing Rules. However, market practitioners found that the first issuer from each of these two domiciles is still required to "argue" for their eligibility, which means higher listing cost for them.
- Both HKEx and SFC have reiterated that HK welcomes listing of companies from all jurisdictions. To address market practitioners' complaints that only applicants incorporated in the "eligible jurisdictions" can avoid a complex and time-consuming application process, the HKEx and SFC have published a joint policy statement in March 2007, which lists out the key shareholder protection measures required for overseas companies to list in HK. By spelling out these measures, the approving authorities hope to facilitate smoother application process and hopefully, reduce the amount of work required of overseas listing applicants.
- Apart from the policy statement, HKEx has stepped up business development promotions abroad, with extensive promotional activities having been conducted in South Korea, Taiwan, Outer Mongolia, Japan and India. Memoranda of understanding or co-operation agreements have been signed with Taiwan, Macao, Indonesia, Malaysia, Cambodia, Vietnam, Kazakhstan and Abu Dhabi to facilitate cooperation in areas such as cross-border listing and trading.
- While efforts have been made to promote and clarify HK's stance regarding listing of foreign companies, it would perhaps be more effective if listing rules were amended directly to facilitate expanding the list of "eligible jurisdictions for listing in HK", as recommended by some market practitioners. Besides, clear guidance notes on the criteria for selection of acceptable places of incorporation should be issued. It is counter-intuitive that the world's most developed countries, including the US, UK and other A-rated OECD countries are not recognized by the listing authorities to be "eligible". It is also unclear how Bermuda and the Cayman Islands can become superior to other markets.
- Without clear guidance on the criteria for selection of acceptable places of incorporation, prospective issuers from outside of the "eligible jurisdictions" may easily regard HK as an impossible venue for their listings. This was probably how HK passed off the listings of Thai Beverage, Southeast Asia's largest spirits and beer manufacturer to Singapore in 2006, and how it failed to secure the listing of Vietcombank.

Authorities try to assure issuers' quality when approving listing

- Some market practitioners are concerned that HK's listing process may not be conducive to the listing of smaller companies, as they observed that smaller-scale IPO applicants are often subjected to closer scrutiny by approving authorities who want to make sure that their businesses are viable and sustainable. GEM sponsors are also faced with more stringent requirements and small-scale IPO applicants on both GEM and the Main Board are subjected to a long series of queries and verifications requirements which tend to discourage them from listing in HK. Over the years, the number of deals hosted on the GEM has declined dramatically. However, the average size of IPO deals has increased, reflecting that successful listings on the GEM consisted of larger-scale companies.
- In the SFC's appraisal of the performance of the HKSE in 2005, it argued that the Listing Division's processing times for IPO applicants with smaller market capitalization were generally longer because small issuers normally took twice as much time as large issuers to respond to the comments sent out by the Listing Division. While it could be that smaller companies have less resources and are unable to respond quickly to the Listing Division's queries, it is also likely that these smaller companies are subject to more inquisitive enquiries because of their perceived inferiority. One may surmise that the regulators are concerned that failure of the listed SMEs may end up with unjustifiable reputation risk thereby affecting the integrity of regulators.
- It is also the impression of some intermediaries that smaller companies are subject to a more vigorous listing process because the authorities had to spare more time for reviewing applications of larger issuers, which are more profitable from a commercial point of view.





GEM fails to serve as an incubator for emerging companies

- The tedious listing process faced by small companies is among the key reasons why the GEM, which was originally conceived to assist smaller and growth companies to raise funds, has failed to serve as an incubator for emerging companies.
- According to market participants, the biggest problem with the GEM is the authorities' eagerness in ensuring the viability of an issuer's business, which makes its regulations even more onerous than those governing the Main board. GEM's rules are also the strictest among the major New Markets. Before being allowed to list on the GEM, companies have to be vetted by the Listing Division, a process some market intermediaries described as arbitrary and opaque. In contrast, on the AIM, vetting is left almost entirely to the Nomads. Instead of preparing a full prospectus, companies seeking to list on AIM merely have to issue a short admission document.
- Apart from implementing a stricter set of entry requirements for applicants, the GEM also imposes tight requirements on their sponsors. In particular, GEM sponsors need to observe a minimum paid-up capital level which is neither required on HK's Main board nor on the AIM.
- In July 2007, the HKEx proposed changes that market participants believed would further raise the entry requirements on GEM applicants. These changes, which include raising the minimum market capitalization and cash flow requirements of listing applicants, if adopted, would mean a further deviation of the GEM away from its original design of serving as an incubator for small and fledging businesses.

Minimum listing requirements of GEM vs other New Markets

	HK – GEM	HK - Main	SESDAQ	AIM	NASDAQ
Public float	25% of issued shares	25% of issued shares	15%	None	1 mn shares; US$5 mn market value of shares
Track record	1 year	3 years	None	None	None
Continuity of ownership	Entire duration of business pursuit	1 year	None	None	None
Continuity of management	Entire duration of business pursuit	3 years	None	None	None
Market capitalization	HK$46 mn	HK$200mn	None	None	None
Independent directors	3	3	2	None	Majority of board directors

Requirements on intermediaries of New Markets in HK & UK

GEM – requirements on sponsors

- A limited liability company licensed under the Securities and Futures Ordinance; at least US$1.28 mn in paid up capital or non-distributable reserves
- Must have sponsored IPO transactions in HK (acted as lead sponsor on at least 2 completed IPO transactions on the Main Board or GEM over the past 5 year period; acted as co-sponsor on at least 3 completed IPO transactions on the Main Board or GEM over the same period). This condition maybe waived for newly set-up firms that can comply with other sponsor eligibility criteria set out under GEM rules.

AIM – requirements on Nomads

- A firm or company, which has practiced corporate finance for at least the last two years
- Employ at least four "qualified executives"
- Has acted on at least three relevant transactions during that two-year period (This may be waived if substantially the entire team of Qualified Executives transfers from an existing nominated adviser.)

More needs to be done to accommodate listing of smaller companies

- The difficulty faced by smaller companies during the listing application process is probably a major cause of the decline in the number of listings on the GEM over the past years, with only 2 listings in 2007.
- In light of the failure of GEM to serve as an incubator for small and fledging companies, and given the next wave of listing from the Mainland is expected to be driven mainly by the smaller scale private enterprises, it is imperative for HK to reconsider its listing regime to accommodate smaller-scale companies.
- Whether these companies should be accommodated in a a transformed GEM platform, a totally new platform, or a platform that should be confined to institutional investors deserves careful deliberation. If a new IPO platform dedicated to small and growth companies is deemed to be a niche that HK should develop, then the model adopted by UK's AIM, under which the screening of listing applicants is delegated to the issuers' sponsors, deserves reconsideration.
- If the level of sophistication of retail investors is a concern, HK may consider creating a market segment similar to the Professional Securities Market (PSM) of the UK. The PSM was created in 2005 to allow companies wanting to raise capital through debt or depositary receipts, but do not want to be restricted in the type or value of securities they issue, to do so without the hassle of following a retail regime. HK may also consider allowing trading of more innovative securities on the Main board or GEM but limiting trading to institutional investors as under US' Rule 144A. Rule 144A allows trading of restricted equity and debt to "Qualified Institutional Buyers" (QIBs) only, i.e. buyers that own and manage at least US$100 million qualified securities, or US$10 million qualified securities in the case of registered brokers/dealers.
- The widening of the issuer base to allow companies from a more diverse range of operating scale and a wider geographic origin to seek listing in HK would not only help boost IPO activities in HK, but also contribute to a stronger ecology for HK's financial industry benefiting market intermediaries of all operating scales. Meanwhile, preparing companies for listing also simultaneously tap into a diverse range of professional needs such as management consulting, business research, corporate finance, accounting, legal, etc. The clustering effect arising from these activities will strengthen HK's role not only as a preferred IPO hub but also as the world's leading financial centre. This, in turn, would create new employment and contribute to the overall growth of the economy through the spill-over effects on consumption and investment. In 2006, financing and insurance accounted for 12.3% of HK's GDP, 5% of HK's business establishments and 7% of HK's employed population.

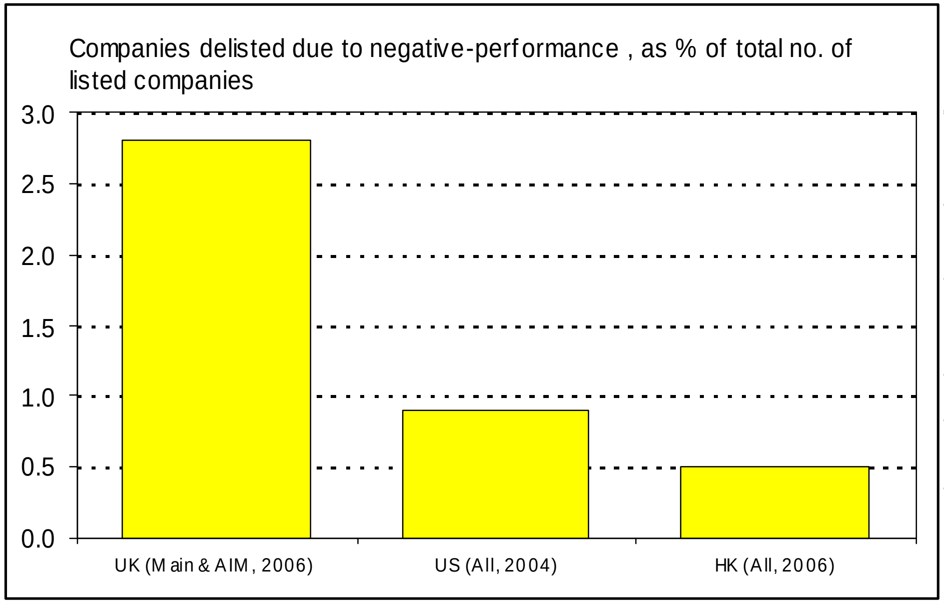
A change of mindset

Approval authorities should not see themselves as “guarantors of quality”

- To a large extent, the narrow issuer base of HK is a consequence of the rigid mindset of the approving authorities who see themselves as playing the role of “guarantors of quality” to safeguard against the failure of listed companies. In July 2007, the HKEx openly rejected the idea of adopting London’s AIM model on the grounds that “*AIM is a buyer-beware market in which the approval of admissions is in effect delegated to the issuers' sponsors. The London market is dominated by institutional investors, while the HK market has a large retail component that necessitates a more active role on the part of the regulators.”*
- While it is part of the HKEx’s objective to secure an appropriate level of protection of retail investors, it is important not to set the threshold of listing applications too high which would only risk discouraging prospective issuers from listing in HK.
- Restricting the domicile origin of listing companies to only a handful of “common law jurisdictions” is taking the "guarantor of quality" role too far. No other major exchange precludes the eligibility of a company to list based on its domicile of incorporation.
- On subjecting smaller companies to a tougher screening process, it is worth recalling that despite the best quality assurance efforts of the approving authorities, HK was unable to guard against scandals such as that of Euro-Asia Agricultural, Climax International, Ocean Grand, etc. Evidently, there can be no fool-proof approach to approving listings.
- In fact, the listing authorities’ attempt to provide absolute protection to investors could well breed moral hazard problems. Getting used to the “quality assurance” approach of the listing authorities, the investing public may develop a mindset believing their investment risks should be protected by the authorities, which should not be the case. The authorities should instead proactively educate retail investors of their own responsibilities.
- As a listed company whose income is directly linked to listing fees and transaction activities, the HKEx in fact has a commercial interest to maximize return on invested capital, which breeds inherent conflict of interest. It can therefore be argued that the HKEx should be kept from acting as a supervisor and should appropriately confine its role to the provision of an efficient trading platform only. More active participation by the government as a “policy maker” is called for.
- As such, the philosophy on which HK’s listing approval process is built needs to be changed. For one thing, the approval authorities should not regard themselves as “guarantors of quality”. Like other major markets, the authorities should stop at ensuring full disclosure of company information, no more and no less, while intermediaries are accountable for representation of the facts disclosed. By ensuring proper disclosure on the part of listing candidates, the market can be left to price investment risks themselves. UK’s AIM, which adopts this approach, has proven to be a successful market.

Lower failure rate does not necessarily imply cleaner bill of health

- Compared to HK, both UK's Main board and AIM have higher failure rates for their listed companies. At below 3% during 2003-2006, AIM's failure rate matched the levels of London's Main Board. In HK, a total of 14 companies were delisted from the Main board in 2006, 3 of which involved negative-performance, equivalent to 0.3% of the total number of companies listed on the Main board. At GEM, where regulations are tougher, the failure rate was 1.6%.
- Given that the UK's AIM adopts a vetting mechanism where the exchange virtually leaves the screening of listing applicants to the Nomads, while companies listed in HK have to be vetted by the Listing Division of HKSE, the higher failure rate of AIM relative to GEM appears to suggest that the latter's approach offers better protection to investors. This is, however, misleading, as poorly performing companies in HK are generally allowed to remain listed even though they are "suspended from trading". Meanwhile, it does not appear that the higher failure rate has stopped AIM from remaining as an active and vibrant market platform, and arguably, when looked at from other perspectives, a more successful market.
- The higher failure rate of AIM has not reduced the attractiveness of its vetting approach. Complimenting AIM's success, the Singapore Stock Exchange has announced the launching of its own version of "sponsor-supervised" listing platform, the Catalist, which was created through the transformation of SGX's existing SESDAQ platform and kicked off on 17 December 2007.



Source: London Stock Exchange Earnings Conference Call, 17 Nov 2007; US Federal Reserve Bank of New York; HKEx and media reports (compiled based on the Main Board & GEM lists of "Withdrawal of Listed Companies")

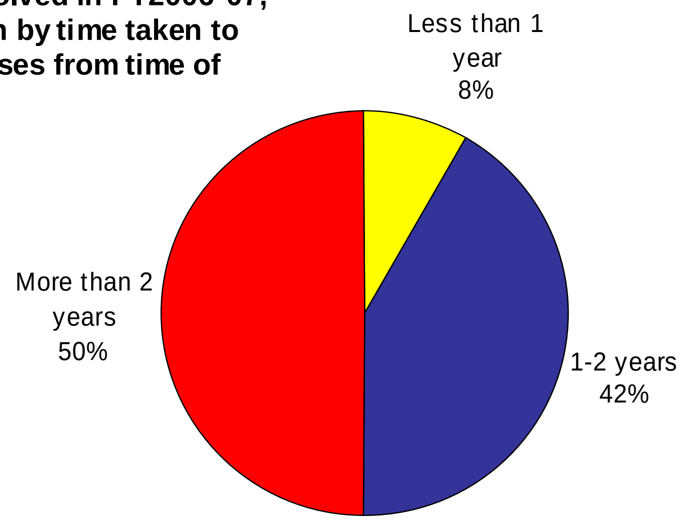
Functions of regulatory / supervisory bodies in selected markets

	HK	SG	UK	US
Setting of financial markets policies	Financial Services and the Treasury Bureau	Monetary Authority of Singapore (MAS)	HM Treasury	Department of Treasury
Market supervisory	Securities & Futures Commission (SFC), HK Exchanges & Clearing (HKEx)	MAS & Singapore Stock Exchange (SGX)	Financial Services Authority (FSA) and London Stock Exchange (LSE) for Main Board; LSE for AIM	Securities and Exchange Comm. (SEC), Self-regulated organizations (SROs) such as NYSE & Nasdaq
Market rules enforcement	SFC & HKEx	MAS & SGX	FSA for Main Board, LSE for AIM	SEC and SROs
Revising listing rules	SFC & HKEx	MAS & SGX	FSA for Main Board, LSE for AIM	SROs
Vetting of applicants	SFC & HKEx	MAS & SGX	FSA for Main Board, Nomads for AIM	SROs

More effective and timely enforcement of regulations is needed

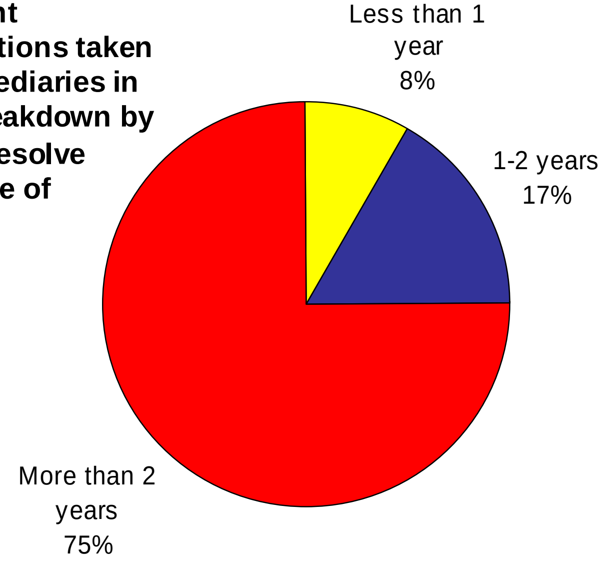
- It should be noted that failure risks of listed companies can in fact be lowered when market monitors perform their role effectively to ward off violations and fraud. Efficient enforcement of market regulations are indirect but effective means of maintaining market order. Timely prosecution of violators helps to ward off malpractices and discourage violations. This is one of the means used by the "buyer-beware" AIM market, which HK authorities deem to be "highly risky", to protect investors.
- The FY2006-07 Annual Report of SFC showed a list of 4 penalty orders by Insider Dealing Tribunal on insider trading, 2 successful prosecutions on market manipulation and 8 breaches on disclosure of interest. Only 2 out of the 12 cases[1] involved violations committed within the immediate 12 months preceding the SFC's date of decision/penalty/conviction. The longest running of these cases dated back to 1996. Disciplinary actions taken against intermediaries took an even longer time to resolve. Of the 12 most significant disciplinary actions[2] taken against intermediaries in FY2006-07 (involving cases such as misappropriation of assets, giving false information to the SFC and failure to discharge due diligence/listing responsibilities), 75% were committed more than 2 years before the disciplinary action was levied.
- It is noted from the SFC's annual report that enforcement benchmarks are not on the list of its performance pledges. In the US, the SEC's performance measures include success rates of enforcement cases and targets to file first enforcement cases within 2 years of initiating an investigation. In the UK, the FSA's enforcement process review sets targets on shortening of case processing time. In the 2006-07 process review, the average case time was just over 10 months, down from 16 months in 2002.

Cases resolved in FY2006-07, breakdown by time taken to resolve cases from time of violation



Source: Securities & Futures Commission, media reports

Most significant disciplinary actions taken against intermediaries in FY2006-07, breakdown by time taken to resolve cases from time of misconduct

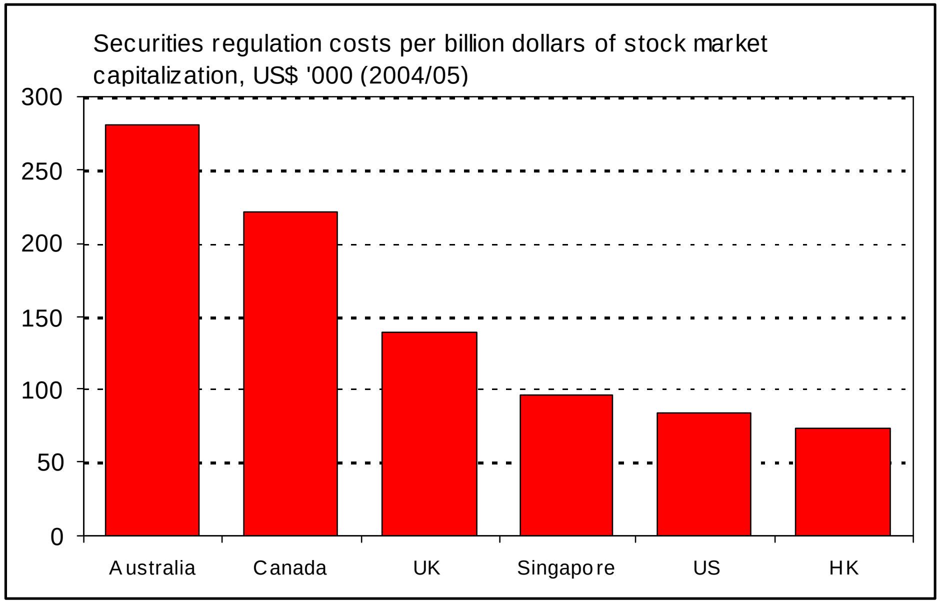


Source: Securities & Futures Commission, media reports

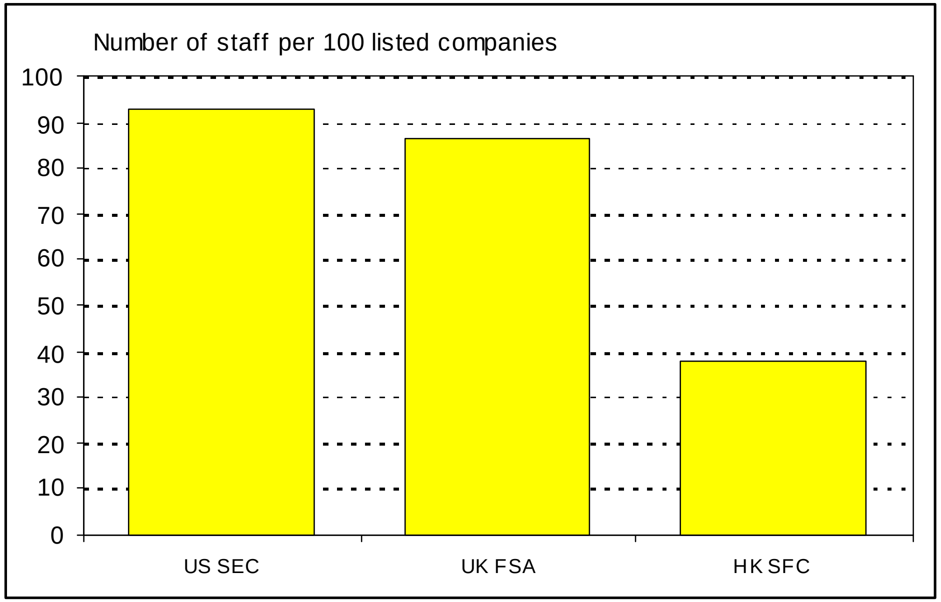
[1] There were a total of 14 cases, but the background of 2 of the "disclosure of interest" cases have not been verified.
[2] There were a total of 13 disciplinary actions taken, but the background on one of these have not been verified.

Resources should be re-deployed to step up enforcement

- It is worthwhile to point out that the enforcement process in HK is in fact very similar to that of the US and UK. All start with private investigations, then proceed with formal order of investigation with the appointment of investigators. All the 3 markets conduct random checks on intermediaries from time to time.
- Same as the UK, HK refers investigated cases that require further action to a Tribunal for public hearing. In the US, the case is forwarded to the federal courts. In general, there is very little criminal enforcement outside of the US. UK's FSA seldom brings cases against listed companies for financial irregularities, choosing instead to focus on brokers/dealers who commit fraud. HK's situation resembles the UK more.
- Although the enforcement processes are similar, the resources HK deployed in enforcing compliance with listing requirements and continuing obligations of listed companies are noticeably less than the UK and US. A study on the regulatory intensity of financial markets across major countries revealed that the cost of securities market regulation per billion dollars of stock market capitalization spent in HK ranks the lowest among the common law jurisdictions of Australia, Canada, the UK, Singapore and the US. In terms of regulatory staff employed per 100 listed companies, HK also lags substantially behind the US and UK. These, perhaps, reflects a need for more resources to be re-deployed to step up enforcement in HK's stock market.



Source: Howell E. Jackson, Variation in the Intensity of Financial Regulation: Preliminary Evidence and Potential Implications.



Source: Howell E. Jackson, Variation in the Intensity of Financial Regulation: Preliminary Evidence and Potential Implications.

Beyond rules and regulations

Attracting a continuous influx of funds is important

- Apart from changing the mindset of the listing authorities, the strength of HK as a preferred IPO platform also lies in its ability to sustain a continuous influx of funds into the territory. This is because the success of IPO is directly related to the pool of funds available in the market, which is one of the main considerations of issuers in deciding where to list.
- According to the Annual Fund Management Activities Survey of the SFC, the combined fund management business of HK expanded by 275% in the past 5 years to US$786 trillion, outperforming Singapore's 192% growth in assets under management during the same period.
- One of the biggest attractions of HK to fund managers is that it is an efficient place for them to conduct business because of its proximity to the Mainland and its understanding of Mainland companies, which are among the most sought-after investment targets nowadays. The large pool of financial industry talents available in HK, and the efficient flow of information within the market provide a further boost to the fund management industry. Maintaining these competitive advantages should be a priority for HK.
- In anchoring funds to the HK market, adequate disclosure is also important, as it is of foremost value to investors. It is, however, worth noting that it is not the "quantity" of disclosure (e.g. frequency of reporting) that matters, but the "quality" of disclosure (e.g. information about the issuer's background, business operations and strategies, etc.) that best serves the interest of investors.
- There is also much room for improvement in the supporting financial infrastructure that HK can offer fund managers. In particular, enhancing the investment environment (e.g. tax treatments) for asset managers and custodians can be considered. While these two types of intermediaries have not received as much media attention, they are important facilitators of efficient fund management activities and directly affect fund managers' choice of their operating home base.
- With the Mainland considering plans to allow domestic Chinese individuals to invest directly in HK equities on an experimental basis, HK will gain an added advantage of being a stock market where IPO issuers, whether they are domiciled in HK or overseas, could tap the vast savings of Mainland residents. At the end of June 2007, the Mainland's savings deposits amounted to Rmb17 trillion. To be able to attract this pool of funds, HK needs to offer greater diversification in investment alternatives, as Mainland investors who have long been holding shares of local companies would certainly seek to diversify their investment portfolios.
- In keeping investors' interest in the HK market, the availability of a diversified selection of products is essential. Currently, this is under much restraint, as there is a perception that HK is still dominated by retail investors, whom the regulators are keen to protect by tight regulations. To encourage product innovation, there needs to be rules that sanction higher-risk financial instruments to be marketed only to qualified or professional investors.

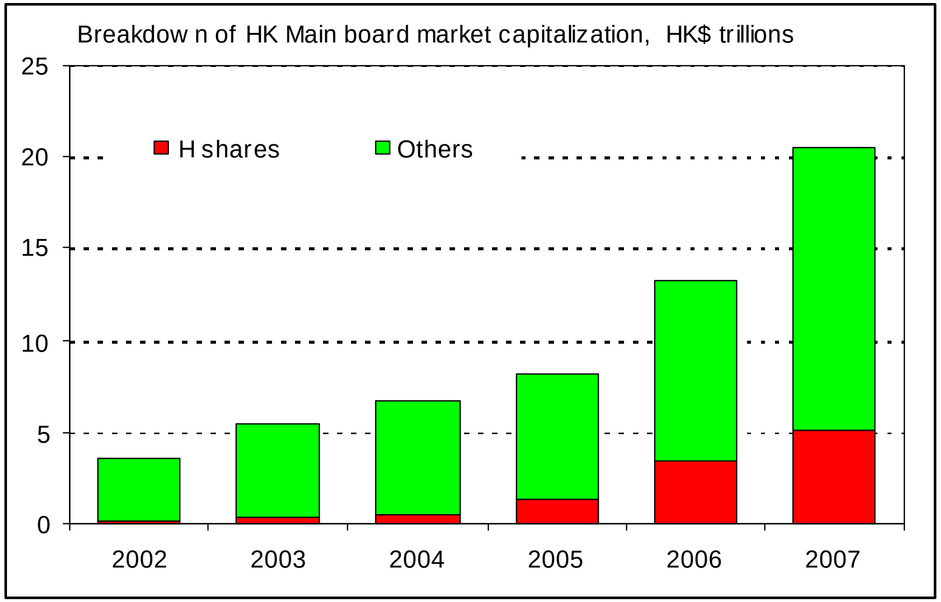
HK also needs to explore new market dimensions

- HK also needs to work harder in innovating new products to attract issuers. At present, HK is seen by fund managers as lagging in product innovativeness. Often cited examples are the developments of Real Estate Investment Trusts (REITs) and business trusts. Singapore's first REIT traded in 2002. It, however, took HK another 3 years to launch its first REIT, the Housing Authority's Link. Likewise, Singapore has taken the lead in the launching of its first business trust in 2006. With a longer track record in the trust business, Singapore has proven to be more successful in attracting issuers that favour features of trust instruments. In another example, HKEx's announcement in August about plans to start trading HK Depositary Receipts (HDRs) in the 3rd quarter of 2008 also came a step later than Singapore, which has traded its first Singapore Depositary Receipt (SDR) in April 2007.
- Apart from product innovation, HK should start looking into other areas where it can gain a head start in enhancing its attractiveness to issuers. For example, HK should leverage on the various real-time gross settlement (RTGS) systems in place to allow listing of equity shares denominated in currencies other than the HK dollar. In due time, if an RTGS system could be made available for the Renminbi (RMB), and RMB-denominated shares could be traded in HK, then our stock market will be in a better position to withstand the shocks that would ensue from a fully convertible RMB. Judging from the sharp increase in the proportion of H-shares in the total market capitalization of HK's Main board from 7.4% to 25% between 2003-2007, the impact of a fully convertible Renminbi on HK's stock market could be dramatic if international funds decide to by-pass H-Shares and invest directly into the Mainland markets.

Development of REIT markets in Asia

	Year of listing of first REIT	No. of REITs issued as of Jun-2007
Singapore	2002	18
Korea	2002	11
Malaysia	2005	18
Hong Kong	2005	7
Taiwan	2005	1

Source: Singapore Exchange, Korea Exchange, Bursa Malaysia, Hong Kong Exchanges & Clearing, Taiwan Stock Exchange



Source: Hong Kong Exchanges & Clearing

HK can continue to leverage on the "Mainland story"

- HK's main strength lies in the Mainland which is likely to remain unchanged for many more years. Given its unique status as a gateway to the Mainland, HK is best positioned to further leverage on the Mainland to expand its role as a preferred IPO center.
- Although Chinese companies are more encouraged to list on the local exchanges now, market participants are still hopeful that more Mainland companies will be attracted to list in HK given its vast international investor base. With the listings of large-scale state-owned Mainland enterprises having completed one after another, HK has stepped up efforts to attract IPOs deals from the growing private Mainland enterprises.
- Aside from continuing to facilitate Mainland companies' "going out" strategy of raising funds abroad, HK can also attract overseas companies with Mainland operations to list in HK. Given HK's familiarity with international companies and its understanding of the Mainland economy and industry structure, HK is an ideal place for overseas issuers with established Mainland operations to raise funds through IPOs and secondary listings. HK could, therefore, develop into the preferred listing venue for companies from any part of the world that have a Mainland presence.
- It is interesting to note from recent global IPO trends that a good number of the non-Asian EM companies listed in the UK over the last 5 years had some kind of presence in the Mainland. These companies could have been attracted to HK if our regulatory regime were accommodating enough and if we were keen enough to market our IPO services to them.

Cross-border IPO issuers in London which have presence in the Mainland

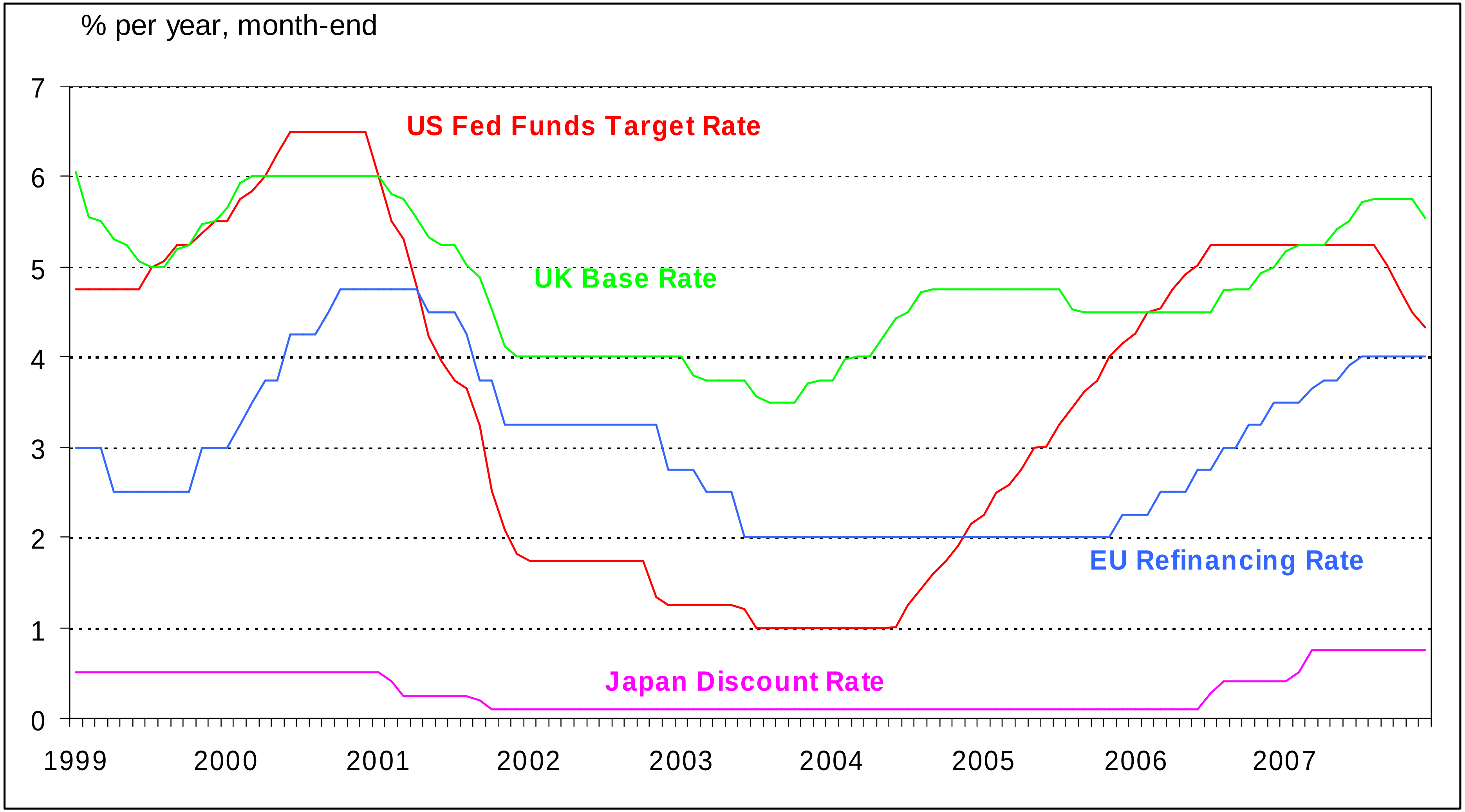
Issuer	Year Listed	Domicile	Market	Mainland Presence	US$ mn Raised
OAO Rosneft	2006	Russian Fed	Main	Yes	10,656
KazMunaiGas Expl & Prodtn JSC	2006	Kazakhstan	Main	Yes	2,255
Gruppa Kompaniy PIK	2007	Russian Fed	Main	No	1,937
PartyGaming PLC	2005	Gibaltrar	Main	No	1,658
AFK Sistema JSFC	2005	Russian Fed	Main	Yes	1,593
AFI Development PLC	2007	Russian Fed	Main	No	1,392
Comstar United TeleSystems	2006	Russian Fed	Main	No	1,062
Lancashire Holdings Limited	2005	Bermuda	AIM	No	616
OAO Novatek	2005	Russian Fed	Main	No	966
OAO Pharmstandard	2007	Russian Fed	Main	No	548
Aer Lingus PLC	2006	Ireland-Rep	Main	No	941
3IQPE	2007	Jersey	Main	Yes	438
Investcom	2005	Lebanon	Main	No	778
Integra Group Holdings	2007	Russian Fed	Main	Yes	765
Halyk Savings Bank	2006	Kazakhstan	Main	Yes	748
Pyaterochka	2005	Russian Fed	Main	No	687
Gem Diamonds Limited	2007	Botswana	Main	No	657
Polymetal	2007	Russian Fed	Main	No	607
Trader Media East Ltd	2006	Netherlands	Main	No	565
INA Industrija Nafte dd	2006	Croatia	Main	No	516
Partners Group Global	2006	Guernsey	AIM	No	507
Cambium Global Timberland Fund	2007	Jersey	AIM	No	491
Lamprell PLC	2006	UAE	AIM	No	461
Ferrexpo PLC	2007	Switzerland	Main	No	451
Trinity Capital PLC	2006	Isle of Man	AIM	Yes	445
Nikanor PLC	2006	Isle of Man	AIM	No	436
Sistema-Hals OJSC	2006	Russian Fed	Main	No	432
Evraz Group SA	2005	Russian Fed	Main	No	422
Talvivaara Mining Company	2007	Finland	Main	No	419
CMA Global Hedge PCC Ltd	2006	Guernsey	Main	No	402
Leaf Clean Energy Company	2007	Cayman Is	AIM	No	398
Catlin Group Ltd	2004	Bermuda	Main	No	355
Prosperity Russia Fund	2007	Guernsey	AIM	No	354
Energy XXI Acquisition Corp	2005	Bermuda	AIM	No	304

More effective lobbying for Mainland authorities' support is needed

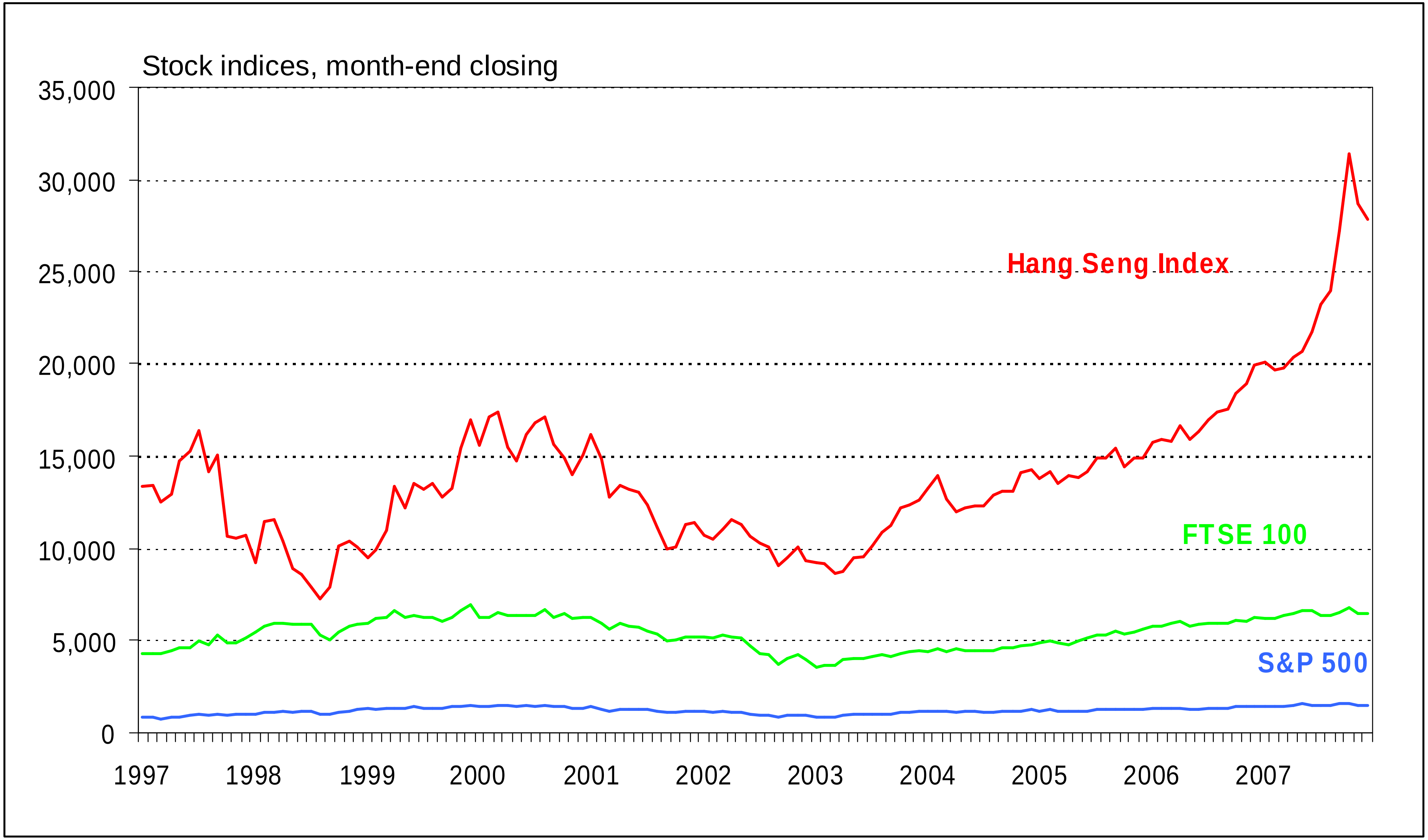
- The intimate interrelation between HK and the Mainland is indisputable. The success stories of the numerous H-shares listed on HK's stock exchange since the 1990s and their consequential rise to dominate the activities in HK stock market highlight the tremendous implications that policy actions could exert on HK. In the interest of HK's long term development, we urge the HKSAR government (HKSARG) to take up a more proactive "policy maker" role in promoting the development of HK's IPO market, as opposed to leaving such strategic developments largely in the hands of the SFC and HKEx.
- HK needs to work with the Mainland authorities to facilitate the continuing development of the markets in HK and the Mainland, as policy changes in the Mainland could affect Mainland companies' choice of listing venue. This, however, requires effective communication between the HKSARG and the Mainland authorities. Issues need to be looked at from the Mainland authorities' point of view, i.e. whether they are concerned about possible loss of state assets, or see a need to protect the development and business volumes of local stock exchanges, or they simply prefer all primary listings to be made locally before companies pursue secondary listings overseas. Only after understanding the reasons behind the Mainland policy changes can HK act proactively to policy adjustments in the Mainland.
- It is worth noting that different Mainland bureaus, such as the State-Owned Assets Supervision and Administration Commission (SASAC), China Securities Regulatory Commission (CSRC) and State Administration of Foreign Exchange (SAFE), may have different agenda. To improve communication, dialogues with Mainland authorities should not be limited to high-level officials. Exchange of information and intelligence should be pursued even at the working levels. There needs to be a consolidation of all these views for HK's lobbying efforts to be effective.
- Going forward, market participants believe that more co-operation with the Mainland is needed to enhance HK's position as a prominent IPO platform. The following are some of the areas that warrant further studies:
  - A framework that can facilitate simultaneous approvals for A-share and H-share listings, even if it remains a requisite that Mainland shares should list A-shares ahead of H-shares
  - Cooperation between the stock exchanges of HK and Shenzhen in coming up with a totally new platform for listing of growth companies
  - Strategic alliance between the stock exchanges of HK and Shanghai
- In order to come up with practicable recommendations, relevant Mainland entities such as the CSRC, Liaison Office of the Central People's Government in the HKSAR and China Enterprise Association should be consulted. Regular communication should also be maintained between HKSARG officials and their relevant Mainland counterparties.

Appendices

Appendix 1a: Global interest rates remain lower compared to 2001

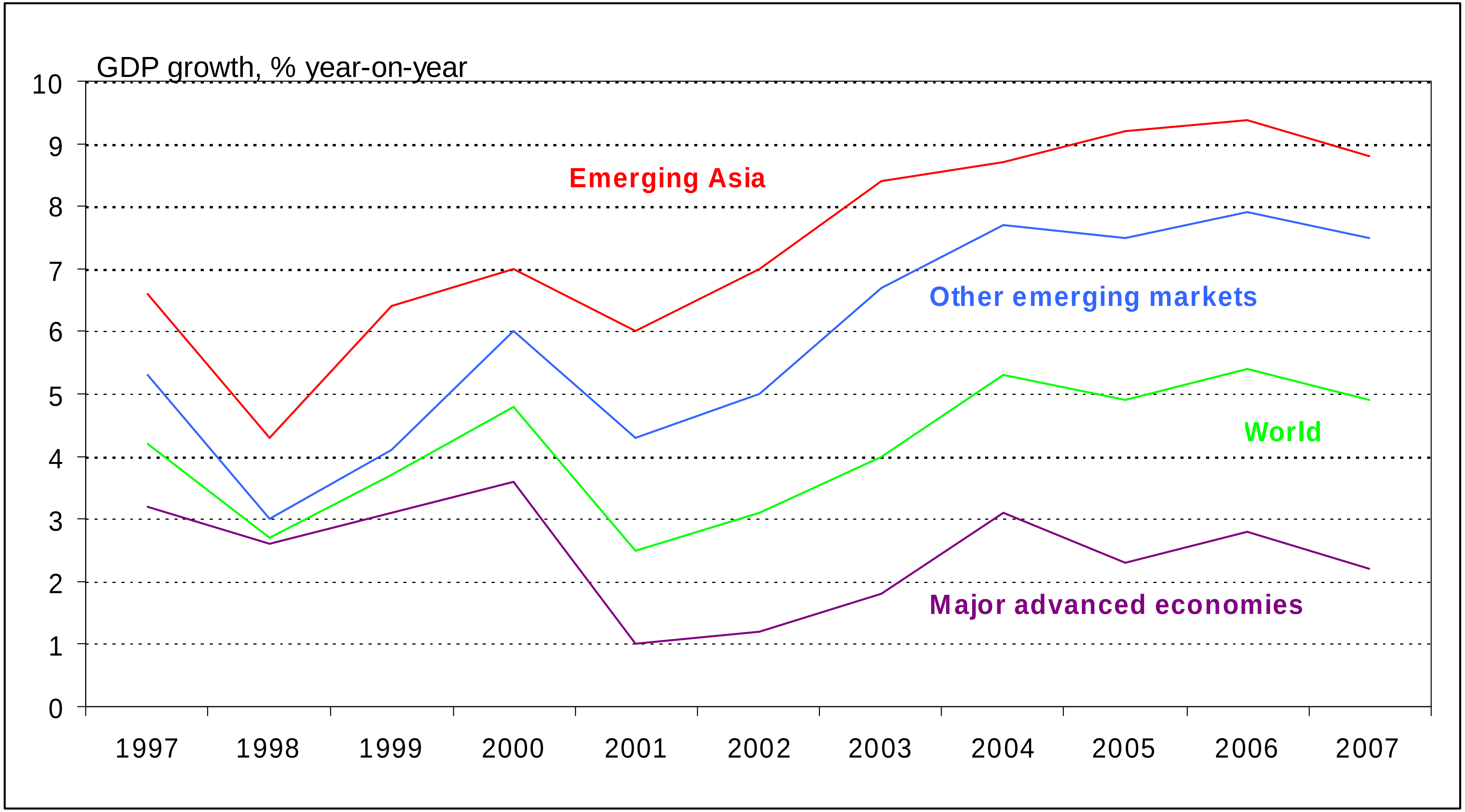


Appendix 1b: Rising stock prices reflect buoyant investor confidence



* As of 24 January 2008

Appendix 1c: World growth powered by emerging markets



Appendix 2: Top 20 IPO deals (2002-2007)

By local listing

Issuer	Year Listed	Domicile	Primary Exchange	US$ mn Raised*
VTB Bank	2007	Russian Fed	Russia	7,987
Electricite de France SA	2005	France	Euronext P	7,479
Iberdrola Renovables SA	2007	Spain	Spain	6,565
China Railway Corp	2007	Mainland China	Shanghai	5,877
Criteria Caixa Corp	2007	Spain	Spain	5,429
CIT Group Inc	2002	US	New York	4,866
Gaz de France	2005	France	Paris	4,781
Blackstone Group LP	2007	US	New York	4,753
Standard Life PLC	2006	UK	London	4,460
Belgacom SA	2004	Belgium	EuronextB	4,399
Travelers Prpty Casualty	2002	US	New York	4,274
PTT Aromatics & Refining	2007	Thailand	Thailand	4,269
DP World	2007	UAE	Dubai	4,219
China Pacific Insurance	2007	Mainland China	Shanghai	4,071
Lotte Shopping	2006	South Korea	Korea	3,739
BOVESPA	2007	Brazil	Bovespa	3,679
Electric Power Devt	2004	Japan	Tokyo 1	3,369
BM&F	2007	Brazil	Bovespa	3,329
Aozora Bank	2006	Japan	Tokyo 1	3,213
ENRC	2007	UK	London	3,044

By cross-border listing

Issuer	Year Listed	Domicile	Primary Exchange	US$ mn Raised*
ICBC	2006	Mainland China	HK	21,969
Bank of China	2006	Mainland China	HK	11,186
OAO Rosneft	2006	Russian Fed	London	10,666
China Construction Bank	2005	China	HK	9,227
OAO VTB	2007	Russian Fed	London	7,988
China Citic Bank	2007	Mainland China	HK	5,946
China Shenhua Energy	2006	Mainland China	HK	3,276
MF Global	2007	Bermuda	New York	2,921
China Communication Const	2006	Mainland China	HK	2,382
Kaz Munai Gas Exploration	2006	Kazakhstan	London	2,255
Bank of Communications	2005	Mainland China	HK	2,165
MW TOPS Ltd	2006	Guernsey	Euronext AM	2,108
Smurfit Kappa Group	2007	Ireland	London	1,974
China Coal Energy	2006	Mainland China	HK	1,946
Gruppa Kompaniy PIK	2007	Russian Fed	London	1,937
OAO PIK Group	2007	Russian Fed	London	1,929
Boart Longyear Ltd	2007	US	Australia	1,909
Soho China	2007	Mainland China	HK	1,906
Country Garden	2007	Mainland China	HK	1,900
Conversus Capital	2007	Guernsey	Euronext AM	1,835

* Refers to funds raised in all markets

Appendix 3: Regulators of markets under study

Hong Kong

The ***Hong Kong Stock Exchange (HKSE)***, a subsidiary of Hong Kong Exchanges & Clearing (HKEx), is solely responsible for the day-to-day administration of all listing related matters with respect to the stock market in Hong Kong (both the Main board & GEM). As the HKEx has both business and regulatory functions, the HKEx's administrative structure is designed in such a way that a "Chinese wall" exists within the organization, segregating the business units from the regulatory unit. In line with this approach, the HKEx Board has delegated its functions and powers in relation to listing matters to the Listing Committee. The Board does not exercise concurrent jurisdiction in relation to any matters to do with listing. The Board is neither involved in nor informed of policy and operational matters relating to listing. The Securities & Futures Commission (SFC) concurrently regulates IPOs in Hong Kong under the "Dual Filing" regime.

Singapore

The ***Singapore Exchange (SGX)*** is in charge of the frontline regulatory responsibilities of the securities market (both the Main board & SESDAQ). It defines and enforces rules that apply to companies seeking to raise capital on the exchange through primary or secondary issues. Listing discretion is exercised by the SGX and by the Securities Industry Council, which is appointed by the Finance Minister. Companies seeking a listing of their shares are considered with regard to numerical standards (e.g. minimum capital and shareholding spread) as well as qualitative factors (e.g. whether they are engaged in an expanding industry with prospects of maintaining their position).

London

The Financial Services Authority (FSA) acting through the ***UK Listing Authority (UKLA)*** regulates the admission of securities to the Official List of the Main board of the London Stock Exchange (LSE). The UKLA makes rules governing admission to listing, the continuing obligations of issuers, the enforcement of those obligations and suspension and cancellation of listing. Day-to-day decisions on listing matters, whether relating to applications for listing, the continuing obligations of persons such as issuers or their sponsors, or the application of the Listing Rules to specific cases or generally to the market, are undertaken by the UKLA. AIM, the second board of the LSE, is not regulated by UKLA. The principal requirement for any company wishing to join AIM is to appoint a specialist adviser, called a ***"nominated adviser" or Nomad***, who will ensure that the company is appropriate for AIM, assist in the IPO process and then ensure that the company observes its continuing obligations under the AIM Rules once it is admitted to trading. AIM is, therefore, regulated by Nomads, who prepare the listing documents and get the issuer admitted to AIM.

New York

Both New York Stock Exchange (NYSE) and NASDAQ are self regulated. Changes they make in their listing and corporate governance standards must be approved by the Securities and Exchange Commission (SEC). ***NYSE Regulation***, a not-for-profit corporation, performs the regulatory responsibilities for the NYSE. It is comprised of a Market Surveillance division that monitors trading activities and investigates trading abuses by member organizations on the Floor and away from the Exchange, as well as an Enforcement division that investigates and prosecutes related disciplinary actions. Its Listed Company Compliance division is responsible for determining whether applicants for listing on NYSE have met the initial listing requirements established by NYSE and to determine whether listed issues and issuers meet the continuing listing requirements. The ***NASDAQ MarketWatch Department*** ensures disclosure and compliance of its listed companies, including the execution of IPO process. MarketWatch oversees the complete and timely disclosure of material information by NASDAQ-listed issuers. In addition, MarketWatch monitors compliance with NASDAQ rules and policies through real-time surveillance of price and volume information reported by market participants.

Appendix 4: Fees charged by exchanges

	Hong Kong Main Board	Hong Kong GEM	Singapore Main Board	Singapore SESDAQ	London Main Board*	London AIM*	New York Stock Exchange	NASDAQ Global Select / Global Market	NASDAQ Capital Market
Non-refundable processing / application fee	None	None	S$20,000	S$20,000	None	Payable by Nomad: £10,250	US$37,500	US$5,000	US$5,000
Listing fee	HK$150,000 to 650,000	HK$100,000 to 200,000	S$50,000 to 200,000	S$10,000 to 20,000	£5,615 to 280,680	Payable by issuer: £4,535	US$150,000 to 250,000	US$100,000 to 150,000	US$50,000 to 75,000
	Basis of calculation:								
	Monetary value of equity securities of the company to be listed	Monetary value of equity securities of the company to be listed	Market value of a unit of security based on issue price	Market value of a unit of security based on issue price	Market capitalization	Fixed	Number of shares issued	Aggregate number of shares to be listed	Aggregate number of shares to be listed
Annual fee	HK$145,000 to 1,188,000	HK$100,000 to 200,000	S$25,000 to 100,000	S$5,000 to 25,000	£3,695 to 6,417 for UK companies; £5,670 to 17,020 for foreign companies	Payable by issuer: £4,535; Payable by Nomad: £10,000-30,000	Capped at US$500,000	US$30,000 to 95,000	US$27,500
	Basis of calculation:								
	Nominal value of the securities to be listed	Nominal value of the securities to be listed	Market closing price of the security	Market closing price of the security	Market capitalization	Fixed for issuers; based on the number of companies represented for Nomads	Number of shares issued and outstanding, including treasury stock and restricted stock	Company's total shares outstanding (TSO) for all classes of stock listed	Company's total shares outstanding (TSO) for all classes of stock listed

* 17.5% VAT applicable to UK companies

Appendix 5a(i): Listing Requirements – Financial (Main board)

Hong Kong	Singapore	London	New York Non-US Worldwide Standards	New York Non-US Domestic Standards
At least 3 financial years track record and one of the following: Category 1: At least HK$50 mn profit in the last 3 financial years (with profits of at least HK$20 mn recorded in the most recent year, and aggregate profits of at least HK$30 mn recorded in the two years before that) Category 2: At least HK$100 mn in aggregate cash flow from operating activities for the 3 preceding years and at least HK$500 mn in revenues in the most recent financial year Category 3: At least HK$500 mn in revenues in the most recent financial year	At least 3 years operating track record and one of the following: Category 1: Cumulative pre-tax profit of at least S$7.5 mn over the last 3 consecutive years, with a pre-tax profit of at least S$1 mn in each of those 3 years Category 2: Cumulative pre-tax profit of at least S$10 mn for the latest 1 or 2 years Category 3: No profit record requirement, but must have minimum market capitalization of S$80 mn	At least 3 years of independent trading and revenue earning track record; the latest audited financial statement should have ended not more than 6 months before the date of issue of the prospectus At least 75% of the applicant's business is supported by a historic revenue earning record; sufficient working capital available for the group's requirements for at least the next 12 months from the date of issue of the prospectus	Standard 1: Combined pre-tax profit of at least US$100 mn over the 3 fiscal years before listing and at least US$25 mn in each of the most recent 2 years Standard 2: At least US$100 mn in aggregate operating cash flow for the last 3 years and US$25 mn for each of the most recent 2 years; at least US$100 mn in revenue for the most recent year Standard 3: At least US$75 mn in revenue for the most recent year	Standard 1: Combined pre-tax profit of at least US$10 mn over the 3 fiscal years before listing; at least US$2 mn in each of the most recent 2 years; positive pre-tax profit for all 3 years Standard 2: Operating cash flow must be positive for each of the 3 previous years and at least US$25 mn in aggregate for the last 3 years; revenue of at least US$100 mn in the most recent year Standard 3: At least US$75 mn in revenue for the most recent year
Accounting standards: HK or IFRS; for overseas issuers, US GAAP or other accounting standards may be acceptable under certain circumstances	Accounting standards: Singapore, US GAAP or International Accounting Standards	Accounting standards: UK, US or International Standards on Auditing	Accounting standards: US GAAP or home country GAAP with a reconciliation to US GAAP	Accounting standards: US GAAP or home country GAAP with a reconciliation to US GAAP

Appendix 5a(ii): Listing Requirements – Financial* (New market)

Hong Kong GEM	Singapore SESDAQ	London AIM	New York NASDAQ Global Select Market	New York NASDAQ Global Market	New York NASDAQ Capital Market
Category 1: At least 24 months of active business pursuits (no profit record requirement) Category 2: At least 12 months of active business pursuits plus one of the following: (1) a total turnover of not less than HK$500 mn in the last 12 month period; (2) total assets of at least HK$500 mn; (3) market capitalization of at least HK$500mn	Company is expected to show that it requires funds to finance a project or the development of a new product, which must have been fully researched and costed	No specific requirements regarding minimum trading record, operations & management, shareholding arrangements, or corporate governance; suitability for AIM admission is a matter for the opinion of the Nomad	Standard 1: Pre-tax earnings of at least US$11 mn in aggregate in 3 prior fiscal years and US$2.2 mn in each of the 2 most recent fiscal years; pre-tax earnings must be positive for all 3 years Standard 2: No minimum pre-tax earnings requirement; cash flow must be positive for each of the 3 previous years and must be at least US$27.5 mn in aggregate in 3 prior fiscal years; revenue of at least US$110 mn in previous fiscal year Standard 3: No minimum pre-tax earnings and cash flow requirements; Revenue must be at least US$90 mn in previous fiscal year	Standard 1: Pre-tax earnings of at least US$1 mn in the latest fiscal year or in 2 of last 3 fiscal years; at least US$15 mn stockholders' equity; no operating history requirement Standard 2: No minimum pre-tax income requirement; at least 2 years operating history and at least US$30 mn stockholders' equity Standard 3: No minimum requirements on pre-tax income, operating history and stockholders' equity; but has to satisfy one of the following requirements: (1) at least US$75 mn in market value of listed securities (2) US$75 mn in total assets and US$75 mn in total revenue	Standard 1: At least 2 years operating history, no minimum net income requirement Standard 2: No minimum operating history or net income requirement; but market value of listed securities must be no less than US$50mn Standard 3: No minimum operating history or minimum market value of listed securities, but has to have net income of no less than US$750,000 in the latest fiscal year or in 2 of the last 3 fiscal years

*Acceptable accounting standards same as respective Main Boards

Appendix 5b(i): Listing Requirements – O&M* (Main board)

Hong Kong	Singapore	London	New York Non-US Worldwide Standards	New York Non-US Domestic Standards
Acceptable places of incorporation				
HK, Bermuda, Cayman Islands, PRC, British Columbia of Canada and Australia; any other jurisdictions where the standards of shareholder protection are at least equivalent to those provided in HK	N/A	N/A	N/A	N/A
Continuity of ownership				
1 year	N/A	N/A	N/A	N/A
Continuity of management				
Category 1: 3 years Category 2: 3 years Category 3: 3 year requirement may be waived at the discretion of HKEx	Category 1: 3 years Category 2: 1-2 years Category 3: None	N/A	N/A	N/A
Minimum market capitalization				
Category 1: HK$200 mn Category 2: HK$2 bn Category 3: HK$4 bn	Category 1: None Category 2: None Category 3: S$80 mn	£700,000	Category 1: None Category 2: US$500 mn Category 3: US$750 mn	Category 1: None Category 2: US$500 mn Category 3: US$750 mn
Minimum number of independent directors				
3, at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise	2 for all companies; for overseas companies at least 2 of the independent directors be Singaporean residents (effective January 1, 2008)	Half the board (excluding the chairman) for FTSE 350 companies; 2 for smaller companies	Majority of board members	Majority of board members

*O&M = Operations and management

Appendix 5b(ii): Listing Requirements – O&M* (New market)

Hong Kong GEM	Singapore SESDAQ	London AIM	New York NASDAQ Global Select Market	New York NASDAQ Global Market	New York NASDAQ Capital Market
Acceptable places of incorporation					
HK, Bermuda, Cayman Islands, PRC, British Columbia of Canada & Australia; any other jurisdictions where the standards of shareholder protection are at least equivalent to those provided in HK	N/A	N/A	N/A	N/A	N/A
Continuity of ownership					
Must be under substantially the same ownership over the period of active business pursuits	N/A	N/A	N/A	N/A	N/A
Continuity of management					
Must be under substantially the same management over the period of active business pursuits	N/A	N/A	N/A	NA	N/A
Minimum market capitalization					
Category 1: HK$46 mn Category 2: HK$500 mn	N/A	N/A	Standard 1: none Standard 2: average of at least US$550 mn in prior year Standard 3: average of at least US$850 mn in prior year	NA	N/A
Minimum Number of independent directors					
3, at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise	2 for all companies; for overseas companies at least 2 of the independent directors be Singaporean residents (effective January 1, 2008)	N/A	Majority of board members	Majority of board members	Majority of board members

*O&M = Operations and management

Appendix 5c(i): Listing Requirements – Public shares (Main board)

Hong Kong	Singapore	London	New York Non-US Worldwide Standards	New York Non-US Domestic Standards
Number of shareholders at time of listing				
Category 1: 300 Category 2: 300 Category 3: 1,000 Note: Without exception, the 3 largest public shareholders cannot beneficially own more than 50% of the securities in public hands at the time of listing	1,000	N/A	Round lot shareholders of at least 5,000 beneficial shareholders	Round lot shareholders of at least 2,000 beneficial shareholders
Minimum public float				
If market cap < HK$10 bn, 25%; If market cap > HK$10 bn, the 25% minimum public float may be reduced to 10-15%	If market cap < S$300 mn, 25%; If market cap is between S$300-400 mn, 20% If market cap is between S$400 mn - S$1 bn, 15% If market cap > S$1 bn, 12%	25%	2.5 mn shares; US$100 mn market value of shares	1.1 mn shares; US$100 mn market value of shares
Underwriting arrangement				
Shares must be fully underwritten	Prior consultation required if not fully underwritten	N/A	N/A	N/A
Minimum issue price				
N/A	S$0.20 per share	N/A	N/A	N/A

Appendix 5c(ii): Listing Requirements – Public shares (New market)

Hong Kong GEM	Singapore SESDAQ	London AIM	New York NASDAQ Global Select Market	New York NASDAQ Global Market	New York NASDAQ Capital Market
Number of shareholders at time of listing					
Category 1: 100 Category 2: 300; largest 5 and 25 holding in aggregate should not exceed 5% and 50% respectively of the number of publicly floated shares	500	N/A	Round lot shareholders of at least 450 or 2,200 beneficial shareholders	Round lot shareholders of at least 400	Round lot shareholders of at least 300
Minimum public float					
If market cap > HK$4 bn, 25%; If market cap < HK$4 bn, the higher of the following must be floated: (1) % that would result if the market value of the securities to be in public hands equaled HK$1 bn (2) 20% of the issuer's total issued share capital	15% or 500,000 shares, whichever is lower	N/A	1.25 mn shares; US$70 mn market value	Standard 1: 1.1 mn shares; US$8 mn market value of shares Standard 2: 1.1 mn shares; US$18 mn market value of shares Standard 3: 1.1 mn shares; US$20 mn market value of shares	Standard 1: 1 mn shares; US$15 mn market value of shares Standard 2: 1 mn shares; US$15 mn market value of shares Standard 3: 1 mn shares; US$5 mn market value of shares
Underwriting arrangement			**Number of market makers**		
Shares must be fully underwritten	Prior consultation required if not fully underwritten		Standard 1: 3 Standard 2: 3 Standard 3: 4	Standard 1: 3 Standard 2: 3 Standard 3: 4	Standard 1: 3 Standard 2: 3 Standard 3: 3
Minimum Issue price					
Category 1: No restriction Category 2: HK$1.00	S$0.20 per share	N/A	US$5	US$5	US$4

Glossary of Terms

Glossary of terms (1)

The ***Alternative Investment Market (AIM)*** is established by the London Stock Exchange to cater to smaller companies, providing them with a less costly route to raise capital by public listing.

An ***American Depositary Receipt (ADR)*** is a negotiable certificate issued by a US bank representing a specified number of shares in a foreign stock that is traded on a US exchange.

The ***Catalist*** is Singapore's "sponsor-supervised" market. Replacing SESDAQ in December 2007, it adopts the AIM-like model, wherein companies are brought to list by approved Sponsors.

Cross-border IPO refers to an IPO where the domicile of issuer is different from the location of exchange hosting the listing. It should be noted that data collected based on this definition may tend to understate the true extent of cross-border activity. Prior to an IPO, some overseas issuers may move into a local shell company or domicile themselves in the host country of the primary exchange. Accordingly, the funds raised will not be counted as cross-border even though the issuers are from overseas.

Developed markets in this report cover the following domiciles: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Guernsey, Ireland-Rep, Isle of Man, Italy, Japan, Jersey, Luxembourg, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, United Kingdom (UK), United States (US).

Domicile of issuer is where the listing company's headquarters is located.

Emerging markets in this report cover the following domiciles: Bahamas, Bahrain, Bangladesh, Barbados, Bermuda, Botswana, Brazil, British Virgin Islands (BVI), Bulgaria, Cambodia, Cayman Islands, Chile, China, Croatia, Cyprus, Czech Republic, Egypt, Estonia, Falkland Islands, Faroe Islands, Gibraltar, Hong Kong (HK), Hungary, India, Indonesia, Israel, Jordan, Kazakhstan, Kenya, Kuwait, Latvia, Lebanon, Lithuania, Macao, Malaysia, Mexico, Morocco, Nigeria, Oman, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Puerto Rico, Qatar, Romania, Russian Fed, Saudi Arabia, Sierra Leone, Singapore, Slovak Rep, South Africa, South Korea, Sri Lanka, Taiwan, Tanzania, Thailand, Trinidad & Tobago, Tunisia, Turkey, Uganda, Ukraine, United Arab Emirates (UAE), Vietnam, Zambia, Zimbabwe.

Failure rate refers to the ratio of companies delisted because of negative performance to the total number of listed companies. Incidences of negative performance includes non-compliance with listing rules or continuing obligations, as well as business failure.

Frankfurt OPEN Market is an Unofficial Regulated Market (i.e. an unofficial market segment regulated by private law) organized by Deutsche Börse which also runs the Official Market and the Regulated Market. Besides German shares, mainly international shares, bonds of German and international issuers, certificates and warrants are traded on the Open Market.

Glossary of terms (2)

FTSE 350 refers to the index of incorporating the 350 largest UK-listed companies.

Funds raised refers to actual amount raised in an IPO exercise from all markets, regardless of the source of funds.

The Growth Enterprise Market (GEM) is established by the Hong Kong Exchanges and Clearing to provide an opportunity for enterprises that have good business ideas and growth potential to obtain listing.

Independent directors are directors that aside from receiving directors' remuneration do not have any other material pecuniary relationship or transactions with the company, its management or its subsidiaries.

Initial public offering (IPO) refers to FIRST TIME issue of stock by a private company to the public on ANY EXCHANGE in the world. For the purpose of this study, the following types of issues are excluded: beneficial interest, limited liability interest, limited partnership interest, trust units. Depositary receipts are separately discussed.

Korean Securities Dealers Association's Automated Quotations (KOSDAQ) is the electronic division of Korea Exchange. Modeled after NASDAQ, the KOSDAQ is an over-the-counter (OTC) market for small-and-medium size companies and venture firms. It implements less stringent requirements than Korea's Main board.

Location of exchange is where the primary exchange is geographically located.

London Plus Market is a cash equity stock exchange in London which has recently been granted "Recognized Investment Exchange" status by the Financial Services Authority, giving it exactly the same rights and privileges as London Stock Exchange and other European Market Operators.

Tokyo's ***Market for High-Growth and Emerging Stocks (MOTHERS)*** is established by the Tokyo Stock Exchange for start-up firms. As the second section of the Tokyo Stock Exchange, Mothers apply less stringent requirements.

Markets under study in this report include HK, London, New York and Singapore. Both the Main boards and New markets of these centres were examined.

New York's ***National Association of Securities Dealers Automated Quotations (NASDAQ)*** is a three-tier market, with the ***Global Select Market*** having the highest listing standards in terms of market value, liquidity and earnings, followed by ***Global Market*** and ***NASDAQ Capital Market***.

Glossary of terms (3)

New markets are typically aimed at companies which are young, small, have high growth and are technology focused. This contrasts with the Main boards which suit larger, more established companies across a broad range of industry sectors. For the purpose of this study, the following markets are referred as New markets: the Growth Enterprise Market (GEM) of the Hong Kong Stock Exchange, the Alternative Investment Market (AIM) of the London Stock Exchange, the NASDAQ in the US, and the SESDAQ board of the Singapore Stock Exchange.

Under the ***New York Stock Exchange (NYSE)*** listing requirement entry standards, non-U.S. companies can choose to list under the ***non-U.S. standards worldwide*** or the ***non-U.S. domestic*** criteria to achieve listing.

A ***nominated adviser (Nomad)*** is appointed by every company joining UK's AIM, it is responsible for assessing the company's suitability to join AIM and for assisting it through flotation. Even after the company is successfully listed, the Nomad will continue to help it meet its ongoing obligations. As of January 2008, the number of nomads approved by the London Stock Exchange was 71.

Offer price is the price of a stock paid for by the subscribers to its IPO issue.

Paris Alternext is established by Euronext Paris to meet small-and-medium size companies' needs to raise funds via public listing.

Pre-deal researches refer to reports that profile an issuer before its shares are publicly offered. They are normally published by the intermediaries (underwriter / issue manager) involved in the offer to stimulate prospective investors' interest in the offer.

Price-earnings ratio (P/E) is offer price of a share divided by the earnings per share (EPS).

Primary exchange is the main exchange on which a stock is listed.

Primary industry is the industry sector that best describes a listed company's main line of business. For the purpose of this study, the following types of companies are excluded: real estate investment trusts; financial companies conducting trust, fiduciary, and custody activities; asset management companies such as health and welfare funds, pension funds and their third-party administration; open-ended investment funds; financial vehicles; grant making foundations; asset management companies that deal with trusts, estates and agency accounts. Note that hedge funds are included as they cannot be isolated in Thomson's Deal Module.

Real estate investment trusts (REITs) are publicly traded financial instruments that invest solely in income-producing real estate assets, which may include office buildings, apartment complexes, industrial facilities, hospitals, shopping centers and other commercial spaces.

Glossary of terms (4)

Real time gross settlement systems (RTGS) is an online system for settling transactions of financial institutions. In an RTGS system, transactions are settled across accounts held at a Central Bank on a continuous gross basis. Settlement is immediate, final and irrevocable. Credit risks due to settlement lags are eliminated.

Rule 144A adopted by the US Securities and Exchange Commission in April 1990 allows trading of restricted equity and debt to "Qualified Institutional Buyers" (QIBs) only, i.e. buyers that own and manage at least US$100 million qualified securities, or US$10 million qualified securities in the case of registered brokers/dealers.

Singapore Exchange (SGX) was formed from the merger of the Stock Exchange of Singapore (SES) and the Singapore International Monetary Exchange (SIMEX). It is Asia-Pacific's first demutualised and integrated securities and derivatives exchange.

Stock Exchange Of Singapore Dealing And Automated Quotation System (SESDAQ) was set up by the Stock Exchange of Singapore to aid smaller companies, foreign or local, in raising funds from the stock market. It was replaced by the *Catalist*, Singapore's version of AIM, in December 2007.

Subscription rate is the number of shares applied for by subscribers in an IPO divided by the number of shares offered in the IPO exercise.

Toronto Venture Exchange is Canada's public venture equity market. It provides emerging growth companies and entrepreneurs with access to public and private venture financing, and the prospect of graduating to Toronto Stock Exchange in a less tedious process.