A Comparison of the Singapore and Hong Kong Emerging-Company Markets

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I. Introduction

Recently, we have been witnessing a move toward alliances among Asian securities exchanges seeking greater competitiveness and larger scale. A prime example is Shanghai–Hong Kong Stock Connect, a cross-boundary investment channel created by the Shanghai Stock Exchange (SSE) and Hong Kong Exchanges and Clearing Limited (HKEx) that enables investors in each market to trade shares on the other market using their local brokers and clearing houses. Operation of the cross-border channel began on 17 November 2014[1]. Also, on 4 December 2014, the Singapore Exchange Limited (SGX) and the Japan Exchange Group (JPX) announced that they would sign enter a Letter of Intent (LOI) to deepen their collaborative relationship.

Parallel to these developments, the Singapore and Hong Kong exchanges, which have become Asia's representative international financial centers and are now seeing the maturation of their main exchanges, have begun to seek new growth opportunities by launching new exchanges targeting emerging growth enterprises. In Singapore, Catalist is operated by SGX, while HKEx is operating its Growth Enterprise Market (GEM)[2]. These two new emerging-company markets are still in their growth phases and as of end-2014 had reached their largest scale ever.

In this report, we focus on SGX's Catalist and HKEx's GEM, comparing the two market's systems and special features.

II. Catalist market features highly diverse group of listed companies

1. Catalist's establishment and development to date

The Catalist market operated by the SGX was established in December 2007. The

1 For more on Shanghai–Hong Kong Stock Connect, see Sekine, E., Shanghai-Hong Kong Stock Connect to Boost Reciprocal Investment in RMB Securities, Nomura Journal of Capital Markets, Autumn 2014.

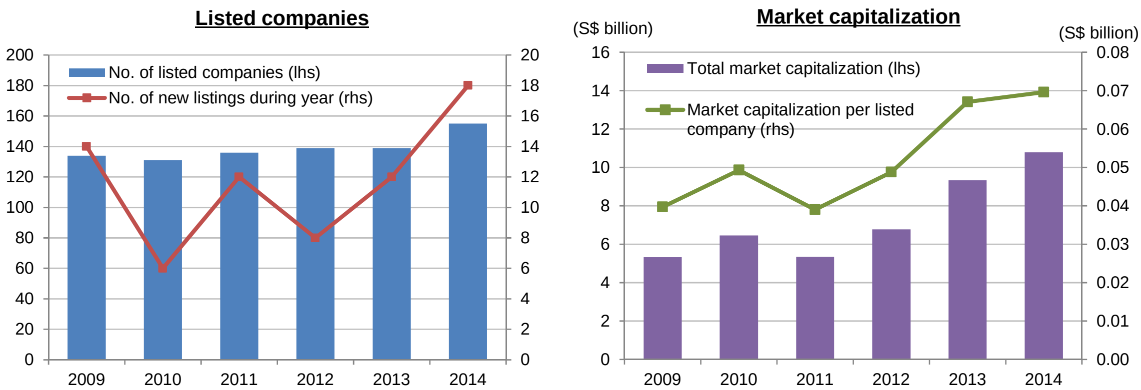
2 More precisely speaking. GEM is operated by The Stock Exchange of Hong Kong Limited, a subsidiary of HKEx.

SGX already had a second section, called SESDAQ, and Catalist was launched as a reformed version of SESDAQ. SESDAQ was launched in February 1987 and achieved measure of success, especially in its second 10 years, from the end of 1997 to September 2007, during which SESDAQ's total market capitalization nearly quadrupled. However, SESDAQ's growth was slower than that of other nation's emerging/growth company markets. One reason often cited for this slower growth was the lack of a clear distinction between SESDAQ and SGX's main market, called the Mainboard[3].

The launch of Catalist therefore was accompanied by several important revisions. The most important of these was the shift in overall market operation from an exchange-supervised regime to a sponsor-supervised one. For example, SESDAQ listing approvals were handled by the exchange but Catalist listings were supervised by a financial advisor called the "sponsor" (details later).

As of the end of 2014, 155 companies were listed on the Catalist market, which had a total market capitalization of S$10.8 billion, (about ¥970 billion) (Figure 1)[4]. In 2009–13, new listings were in the range of 6–14 each year, but 18 companies listed in 2014. In addition, larger companies are seeking listings. As of the end of 2013, Catalist-listed companies had an average market capitalization of S$70 million, but the 18 companies that listed in 2014 had an average market cap of S$110 million as of the end of that year.

Figure 1: Catalist market: Trends in numbers of listed companies and new listings



Note: Data is as of the end of each calendar year.
Source: Nomura Institute of Capital Markets Research, based on SGX monthly market report

3 See Osaki, S. *Tōshō no shin-shijō kōsō to jitsugen e muketa seido kaikaku no ugoki* (Tokyo Stock Exchange's emerging-company market concept and system reforms targeting its realization), Nomura Capital Markets Quarterly, Winter 2008 (Japanese only).

4 Upon launch of Catalist in December 2007, about 160 companies already listed on SESDAQ were transferred to Catalist, but those that could not find sponsors within two years were delisted.

2. Catalist listing requirements

Catalist listing requirements are much less strict than those for listing on the SGX's Mainboard, and even recently established companies can be listed on this market. For example, companies listed on the Mainboard must fulfill such requirements as having at least three years of business results, with consolidated pretax profit in the most recent year amounting to at least S$30 million. Companies listing on Catalist, however, are not subject to any quantitative profit criteria and are eligible to list as long as they can show they have secured enough working capital to cover their needs for the first 12 months after listing (Figure 2)[5].

Figure 2: Comparison of Catalist and Mainboard markets

	Catalist	Mainboard
Listing format	・Primary listings only ・Underlying stock only	・Primary and secondary listings ・Underlying stock and depositary receipts may be listed. Introduction listings are also possible.
Listing application	・Must submit offer document ・Screening/approval by sponsor	・Must submit prospectus ・Screening/approval by the exchange
Financial requirements	No minimum profit requirement but at time of listing must have sufficient working capital for at least 12 months after listing.	An issuer must satisfy one of the following: (1) Operating track record of at least 3 years and minimum consolidated pretax profit of at least S$30 million for latest financial year. (2) Operating track record of at least 3 years, recorded a consolidated pretax profit in latest financial year, and market capitalization of not less than S$150 million based on issue price. (3) Operating track record for at least 1 year, posted operating revenue in the latest completed financial year, and market capitalization of not less than S$300 million based on the issue price.
No. of shareholders and free-float ratio	・Must have at least 200 shareholders ・Must have free-float ratio of at least 15%	・For primary listings, issuers must have at least 500 shareholders. ・For secondary listings, issuers must have at least 500 shareholders worldwide. However, when the SGX and primary home exchange do not have a framework to facilitate movement of shares between jurisdictions, the issuer should have at least 500 shareholders in Singapore or 1,000 shareholders worldwide. ・Required free-float ratio of 12–25%, depending on size of market capitalization.
Restrictions on sales at time of listing	At the time of the IPO, if Promoters as a group hold more than 50% of the post-invitation share capital, they may sell only the portion above 50%. If they hold less than 50%, they cannot sell any of their holdings.	No restrictions
Restrictions on sales after listing	・Promoters cannot sell any of their shares for at least six months after the listing. Thereafter, they may sell only up to 50% of their holdings in the next 6 months. ・Pre-IPO investors who acquired shares in the 12 months prior to the IPO cannot sell the profit portion of their shareholdings for a period of 12 months after IPO.	・Promoters cannot sell any of their shares for at least six months after the listing. Thereafter, they may sell only up to 50% of their holdings in the next 6 months. ・Pre-IPO investors who acquired shares in the 12 months prior to the IPO cannot sell the profit portion of their shareholdings for a period of 12 months after IPO.

Note: 1. Primary listings are for companies listing on the SGX as their main exchange. Secondary listings are listings by companies that are already listed on the exchange of another country and seek a supplementary listing on the SGX.
2. An introduction listing is a listing unaccompanied by any offer of new shares by a company that is not seeking to raise additional capital.

Source: Nomura Institute of Capital Markets Research, based on Rulebooks for SGX Catalist and Mainboard markets

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5 The quantitative requirement for listing on SESDAQ was positive operating cash flow. As a point of reference, TSE Mothers, Japan's emerging-company market, does not have a profit requirement but requires an operating track record of at least one year.

Meanwhile, sales of shares held by major existing shareholders at the time of listing on Catalist are restricted. Because the requirements for listing on Catalist are much easier to clear than those for the Mainboard, some company owners and venture capitalists could seek to list their companies on Catalist mainly to facilitate the sale of their equity interest in the company. If such major shareholders listed low-quality companies, investors could be subjected to losses caused by problems arising after the listing. The restrictions on major shareholders' sales of their equity positions are designed to prevent the occurrence of such situations. Specifically, controlling shareholders with direct or indirect holdings amounting to 15% or more of the voting rights or executive directors with an equity interest of 5% or more of total outstanding shares are designated as "Promoters". If this group has a combined equity interest of more than 50% at the time of listing, they are allowed to sell only the portion of their combined holding that exceeds 50%. If their combined equity interest is less than 50%, the Promoters are not allowed to sell off any of their shares at the time of listing. Moreover, sales by this group are also restricted after the listing. They cannot sell off any portion of their shareholdings during the first six months after listing, and in the following six months they are allowed to sell only up to 50% of their shareholdings.

Catalist-listed companies meeting the following criteria can move up to the Mainboard: (1) listed on Catalist for at least two years, (2) meet all financial criteria for a Mainboard listing, and (3) receive approval of a special resolution for the Mainboard listing at a general meeting of shareholders.

3. Catalist's sponsor system

As noted earlier, the Catalist market has introduced a "sponsor system" under which screening of applicants for listing is not done by the exchange but rather by a financial advisor called the "sponsor". This system is based on the Nominated Advisor, or Nomad, system used by the London Stock Exchange's emerging-company market, the Alternative Investment Market (AIM). The AIM was established in 1995 and has since been one of the world's fastest growing stock markets, reaching a total of 1,104 listed companies with a combined market capitalization of ₤71.4 billion (about ¥13 trillion) as of the end of 2014[6].

In addition to screening listing candidates, Catalist sponsors fulfill a number of other roles, including listing support, post-listing supervision of the sponsored company, advisor on IR and other information disclosures, and liaison/coordinator between the listed company and the exchange. In addition, sponsors often serve a lead manager function for the stock issuance at the time of listing. Companies listed on Catalist must have a sponsor at all times or be subject to delisting.

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6 At the end of 2007, prior to the Lehman shock and the subsequent global financial crisis, AIM had 1,694 listed companies and a total market capitalization of ₤97.6 billion.

Figure 3: Conditions for becoming a Catalist sponsor

Full sponsor	Continuing sponsor
・Be a corporation with minimum base capital of S$500,000 and sufficient professional indemnity insurance to cover proposed sponsor activities	・Be a corporation with a minimum base capital of $250,000 and sufficient professional indemnity insurance to cover its proposed sponsor activities.
・Have extensive experience as a lead manager for primary market issues	・Have experience in corporate finance advisory work or compliance advisory work
・Have sufficient skills and resources to discharge obligations as a sponsor, including at least 3 professionals who meet the criteria as registered professionals. Regarding the registered professionals: (1) at least 1 must have a minimum of 10 years' experience in corporate finance advisory work or related advisory work and have served as advisor in a managerial or supervisory capacity on at least 5 listings in the past 10 years; and (2) at least 2 have a minimum of 5 years' experience each in corporate finance advisory work or related advisory work, and 1 of these professionals must have advised on at least 3 listings in the 5 years prior to the application.	・Have sufficient skills and resources to discharge its obligations as a sponsor, including at least 2 professionals who meet the criteria for registered professionals. Regarding the registered professionals: (1) at least 1 has a minimum of 5 years' managerial or supervisory experience in corporate finance advisory work or related advisory work; and (2) at least 1 has a minimum of 5 years' experience in (i) corporate finance advisory work; or (ii) accounting, auditing or finance work.
・Have established and operate out of a physical office in Singapore	Same as for full sponsor
・Have substantial shareholders, directors and key officers who are, in the Exchange's opinion, fit and proper	Same as for full sponsor
・Have a satisfactory reputation and work record	Same as for full sponsor
・Not be in breach of any relevant rules or laws	Same as for full sponsor
・After registration as sponsor, remain independent of, and have no conflicts of interest with, the entities it sponsors	Same as for full sponsor

Source: Nomura Institute of Capital Markets Research, based on SGX Catalist Rules

There are two types of sponsors. "Full sponsors" conduct listing screenings and post-listing supervision. "Continuing sponsors" are involved only in post-listing supervision. Sponsors must fulfill certain conditions set by the SGX and be registered with the exchange. Sponsors must have solid managements and the required expertise. Because full sponsors are also responsible for screening new listing applicants, they are subject to stricter criteria than continuing sponsors, including past experience as a lead manager for a new listing and sufficient numbers of staff with relevant experience. If the sponsored company makes false disclosures, the sponsor must bear responsibility as the supervisor. Because full sponsors must continue serving as the listing company's sponsors for at least three years after listing, they have a strong incentive to conduct thorough pre-listing screenings of listing candidates.

As of end-January 2015, the Catalist market had 16 authorized sponsors, of which 10 were registered as full sponsors and the remaining six as continuing sponsors (Figure 4). Many of the full sponsors are investment banks, while continuing sponsors include such financial advisory entities as accounting firms and law firms. The majority of current sponsors have been registered since Catalist's launch, and there has not been any increase in sponsor numbers in recent years. While some sponsors are responsible for more than 40 listed companies, there are also some sponsors that do not have a single sponsored company.

Figure 4: Catalist sponsor list

Sponsor name	Sponsor type	Business category	Registration date	Sponsor name	Sponsor type	Business category	Registration date
Canaccord Genuity Singapore Pte. Ltd.	Full sponsor	Investment bank	February 2008	SAC Capital Private Limited	Full sponsor	Other financial advisory	January 2014
CIMB Bank Berhad, Singapore Branch	Full sponsor	Investment bank	February 2008	UOB Kay Hian Private Limited	Full sponsor	Investment bank	April 2014
DBS Bank Ltd	Full sponsor	Investment bank	February 2008	Asian Corporate Advisors Pte. Ltd.	Continuing sponsor	Other financial advisory	February 2008
Morgan Stanley Asia (Singapore) Pte.	Full sponsor	Investment bank	February 2008	R & T Corporate Services Pte. Ltd.	Continuing sponsor	Accounting firm-based financial advisory	February 2008
Oversea-Chinese Banking Corporation Pte Ltd	Full sponsor	Investment bank	February 2008	Stamford Corporate Services Pte Ltd	Continuing sponsor	Law firm-based financial advisory	February 2008
PrimePartners Corporate Finance Pte Ltd	Full sponsor	Other financial advisory	February 2008	Xandar Capital Pte Ltd	Continuing sponsor	Other financial advisory	July 2010
United Overseas Bank Limited	Full sponsor	Investment bank	February 2008	RHT Capital Pte. Ltd.	Continuing sponsor	Law firm-based financial advisory	August 2011
Hong Leong Finance Limited	Full sponsor	Other financial advisory	February 2012	Provenance Capital Pte. Ltd.	Continuing sponsor	Other financial advisory	June 2014

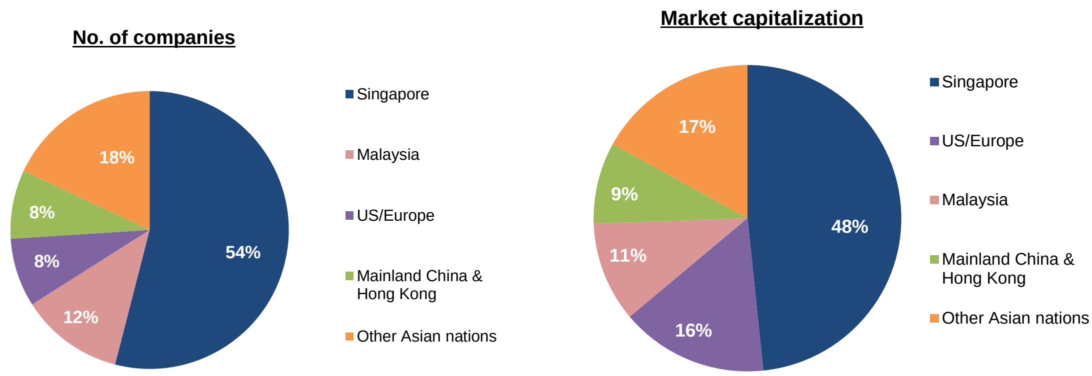
Source: Nomura Institute of Capital Markets Research, based on SGX website

4. Catalist market's special features

One of the main features of the Catalist market is the diversity of listed companies. For starters, Catalist listees include many foreign countries. A by-country composition of Catalist listed companies shows that Singapore companies account for only about 50% of the market in terms of both the total number of listed companies and total market capitalization. Malaysia, mainland China and Hong Kong each account for about 10% (Figure 5). U.S. and European companies account for 8% of listed companies and 16% of market capitalization. As these figures show, the Catalist market has attracted companies from around the world, not just Asia.

The next outstanding feature of Catalist is the diverse range of industries represented by listed companies. We also compared the industry composition of market capitalization of companies listed on the Catalist market against that for the SGX overall. On an all-exchange basis, listings are heavily weighted toward a relatively small group of industries, starting with financials (including real estate) at 44% of total market capitalization, followed by capital goods at 20%, and consumer services at 13%. These three industry groups therefore account for about three-quarters of total market capitalization (Figure 6). Catalist, however, has a more balanced industry composition, with capital goods accounting for 29% of market capitalization, healthcare 18%, technology 11%, oil & gas 10%, and basic materials 9%. Of the 18 new listings on Catalist in 2014, four were health care companies and three were energy/resource companies. Singapore seeks to be the Asian hub for trading in health care and commodity stocks, and we therefore think these two industry sectors are likely to account for a larger percentage of listed companies in the future.

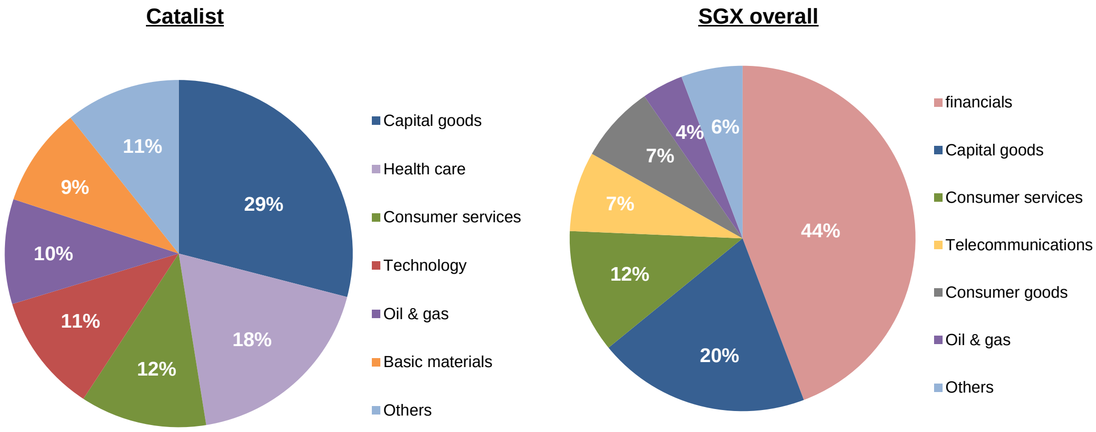
Figure 5: Composition of Catalist-listed companies, by country



Note: 1. Many companies listed on Catalist registered as Singapore companies actually conduct their business in another nation or nations. Consequently, the data above is based not on companies' registered country but on the country from which they derive the largest percent of their sales. Furthermore, data is based on the 50 listed companies with the highest market capitalization, as of end-2014.
2. Other Asian nations include Pacific nations, Middle East nations, and Japan.

Source: Nomura Institute of Capital Markets Research, based on annual reports of Catalist-listed companies and Bloomberg

Figure 6: Comparison of industry composition of listed companies on Catalist and SGX overall



Note: 1. Composition is based on market capitalization as of end-2014.
2. Industry classifications are based on the FTSE Group's Industry Classification Benchmark. Financials includes Real Estate.
3. Catalist-listed stocks are based on the 142 stocks in the FTSE ST Catalist Index.

Source: Nomura Institute of Capital Markets Research, based on SGX monthly market report and FTSE Factsheet

III. GEM dominated by mainland China and Hong Kong IT stocks

1. GEM establishment and development to date

The Growth Enterprise Market (GEM) operated by Hong Kong Exchange and Clearing Limited (HKEx) was established in November 1999. At that time, Hong Kong had positioned support for the development of small and midsize emerging technology companies as a priority area. That policy, combined with establishment of emerging-company markets around the world, starting with the London Stock Exchange's aforementioned AIM, led to the establishment of GEM[7].

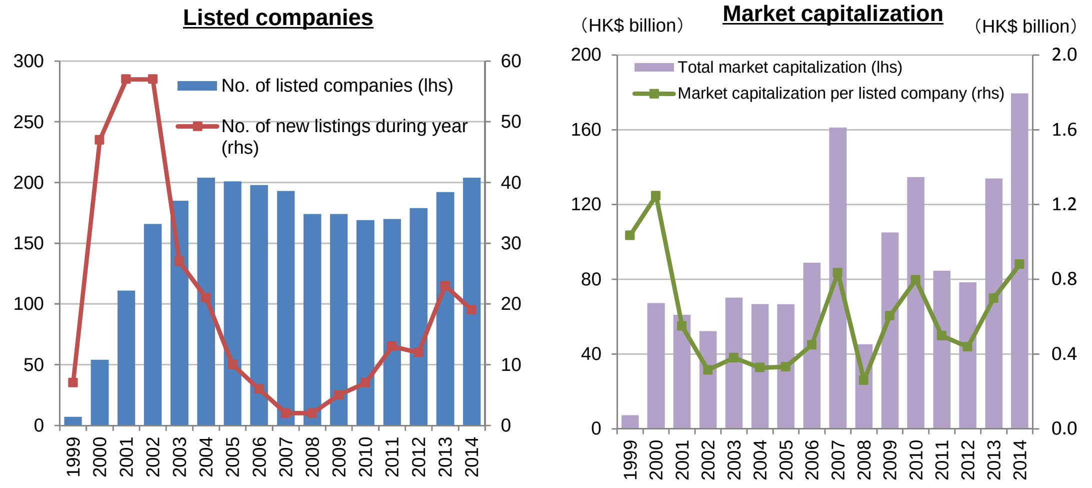
GEM's launch coincided with the global IT boom, and many startup IT firms rushed to list their stock on the new market. The subsequent end of that boom led to a global crash in share prices of IT companies. No exception to the rule, GEM-listed companies saw their share prices fall sharply. The GEM share price index (S&P/HKEx GEM Index) fell from 3,287 on 23 January 2001 to 864 on 8 July 2005. In reaction, new listings also fell sharply, from 57 in 2002 to just 10 in 2005.

The market downturn triggered discussions about system reforms for GEM in 2005. Three options were considered: (1) reposition GEM as a stepping stone to listing on the HKEx's Main Board, (2) merge GEM with the Main Board to create a single market, and (3) create a new alternative market to replace GEM. Following public discussion of these options, in May 2008 it was decided to position GEM as a stepping stone to listing on the Main Board. In July of that year, rules governing listing transfers were revised to make it easier for GEM constituents to shift to the HKEx Main Board. GEM-listed companies seeking to move to the Main Board must fulfill all requirements for listing on the Main Board and have been listed on the GEM for at least one financial year, but they no longer need to appoint a sponsor, seek shareholders' approval, or prepare listing application documents.

The relaxed listing requirements have fueled a rebound in new listings in recent years, with 19 companies listing on the GEM in 2014. As a result, at the end of 2014, GEM had attained its largest scale ever, with 204 listed companies and total market capitalization of HK$179.4 billion (about ¥2.8 trillion) (Figure 7). The growth in total listed companies has been less than the number of new listings each year because an increasing number of GEM-listed companies are transferring their listing to the Main Board. While new listings had declined steadily up through 2007, they have averaged about 10 a year since 2008.

7 Kohashi, A. *Honkon no benchā shōken torihikisho, GEM no genjō* (Current state of GEM, Hong Kong's venture company stock exchange), Capital Markets Quarterly, Winter 2002 (Japanese only).

Figure 7: GEM – Trends in numbers of listed companies and new listings



Note: Data is as of the end of each calendar year.
Source: Nomura Institute of Capital Markets Research, based on GEM statistics

2. GEM listing requirements

To facilitate stock listings by emerging growth companies, GEM listing requirements, including operating track record and financial performance requirements, are considerably less restrictive than those for the HKEx's Main Board (Figure 8). Companies listing on the Main Board must be able to show their business performance for at least three years, and clear one of three sets of quantitative financial criteria—for example, total profit of at least HK$50 million over the past three financial years and market capitalization of at least HK$200 million at the time of listing. GEM applicants however need operating track records of only two years, aggregate cash flow of at least HK$20 million for the two financial years preceding listing, and market capitalization of HK$100 million at the time of listing.

While the listing hurdle is lower for companies listing on GEM, post-listing financial disclosure requirements are stricter than for companies listed on the Main Board. Main Board constituents are required to report financial results on a semiannual basis, with quarterly reporting optional. GEM constituents, however, are required to report quarterly results, as a further measure to protect investor interests.

Figure 8: Comparison of GEM and HKEx Main Board

	GEM	Main Board
Listing format	・Primary listings only ・Underlying stock only	・Primary and secondary listings ・Underlying stock and depositary receipts may be listed. Introduction listings are also possible
Listing application	・Must submit prospectus ・Screening/approval by sponsor	・Must submit prospectus ・Screening/approval by the exchange
Operating track record	Must have an operating track record of at least 2 financial years and meet following conditions: (1) effectively the same management throughout the 2 financial years; and (2) continuity of ownership and control throughout the full financial year immediately preceding the issue of the listing document	Must have an operating track record of at least 3 financial years and meet following conditions: (1) effectively the same management throughout the 3 financial years; and (2) continuity of ownership and control throughout the full financial year immediately preceding the issue of the listing document
Financial requirements	Applicants must meet both of the following criteria: (1) Cash flow ・Positive cash flow generated from operating activities of at least HK$20 million in aggregate for the two financial years immediately preceding submission of the listing document (2) Market capitalization ・Market capitalization of at least HK$100 million at time of listing	Applicants must meet one of the following sets of financial criteria: (1) Total profit of at least HK$50 million over past 3 financial years (with profits of at least HK$20 million recorded in most recent year, and aggregate profits of at least HK$30 million in the 2 years before that) and market capitalization of at least HK$200 million at time of listing. (2) Sales of at least HK$500 million for the most recent financial year and market capitalization of at least HK$4 billion at time of listing. (3) Sales of at least HK$500 million for the most recent financial year, market capitalization of at least HK$2 billion at time of listing, and positive aggregate operating cash of at least HK$100 million for 3 preceding financial years.
No. of shareholders and free-float ratio	・Must have at least 100 shareholders ・Must have free-float ratio of at least 25% ・Holdings of top three shareholders at time of listing cannot be more than 50% of free-float shares ・Market capitalization of free-float must be at least HK$30 million	・Must have at least 300 shareholders ・Must have free-float ratio of at least 25% ・Holdings of top three shareholders at time of listing cannot be more than 50% of free-float shares ・Market capitalization of free-float must be at least HK$50 million
Restrictions on sales after listing	・Controlling shareholders (those that own, either directly or indirectly, 30% or more of voting rights as well as any shareholder who can appoint a majority of the Board of Directors) cannot sell any of their shares for at least six months after the listing. ・During the subsequent 6-month period, share disposals that would reduce the seller's interest to less than the 30% level that defines a controlling shareholder are not permitted.	Same as for GEM

Source: Nomura Institute of Capital Markets Research, GEM Listing Rules and Main Board Listing Rules

3. GEM's sponsor system

HKEx refers collectively to securities companies that are qualified to support new listings as "sponsors" and has adopted the sponsor system for both the GEM and the Main Board. However, listing approvals for the Main Board are still the exchange's direct responsibility. The GEM, like Catalist, uses sponsors to conduct the listing screenings.

HKEx sponsors, however, are restricted to financial institutions that have been approved by the Securities and Futures Commission of Hong Kong (SFC). As of end-

January 2015, 91 companies have received SFC approval as sponsors[8]. The majority are local social securities companies, but the list also includes some U.S. and European investment banks, as well as some Japanese securities companies[9].

Companies seeking to be sponsors must meet the requirements presented in the SFC's Guidelines on Competence[10] as well as its Fit and Proper Guidelines[11]. Areas of corporate competency that are reviewed when screening potential corporate sponsors focus on (1) key elements of the company's organizational structure, such as its corporate governance, risk management, internal audit, internal control, and IT support, and (2) the quality of its personnel policies, such as policies and procedures to ensure posting of staff with the necessary qualifications and training polices. The Fit and Proper Guidelines focus on financial solvency, experience and specialist knowledge, and reliability. Financial institutions seeking to become registered sponsors need to have at least two staff members, called "Principals," that satisfy the SFC's eligibility criteria.

Once companies have been listed on GEM for two financial years (excluding the year of listing), they are no longer required to retain a sponsor, unlike the Catalist requirement that a continuing sponsor be retained.

Figure 9: Eligibility criteria for principals

Option 1	Option 2	Option3
- At least 5 years of experience as financial advisor to companies listed on the Main Board and/or GEM. - In the 5 years immediately preceding appointment, played a substantial role as a sponsor advising on at least 2 IPOs on the Main Board and/or GEM.	- Highly experienced in due diligence as a result of leading IPO transactions in Australia, U.K or U.S. - Highly experienced in corporate finance for companies listed in Australia, U.K. or U.S. - Completed a course or special examination on ethics, sponsor work, and the legal and regulatory requirements governing IPO transactions in Hong Kong within the past 6 months.	- Participated actively and substantially in due diligence work on at least 4 completed IPO transactions in Hong Kong within the past 5 years. - At least 5 years of experience as corporate finance advisor to companies listed on the Main Board and/or GEM. - Passed special examination on ethics, sponsor work, and the legal and regulatory requirements governing IPO transactions in Hong Kong within the past 6 months.

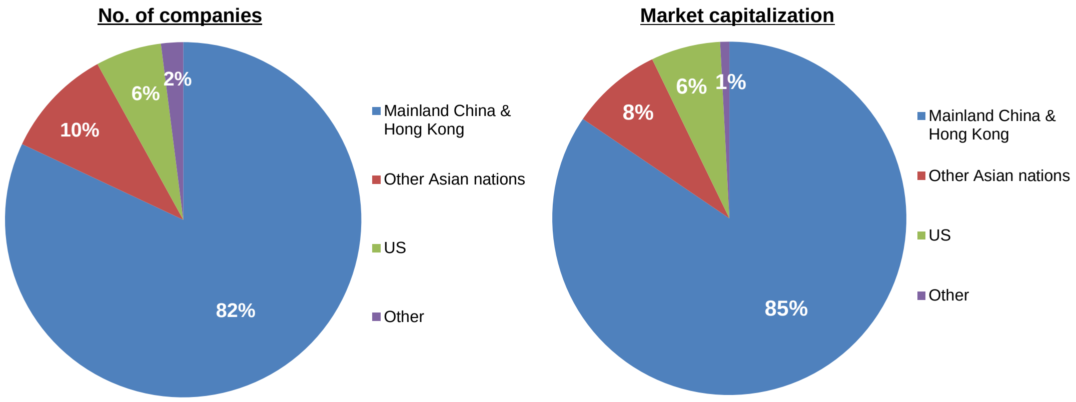
Source: Nomura Institute of Capital Markets Research, based on "The Securities and Futures Commission of Hong Kong's Fit and Proper Guidelines"

8 http://www.sfc.hk/publicregWeb/listOfSponsor
9 Daiwa Securities Group and local subsidiaries of Nomura Holdings and Mizuho Securities.
10 http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_403_VER10.pdf
11 http://en-rules.sfc.hk/net_file_store/new_rulebooks/h/k/HKSFC3527_548_VER30.pdf

4. GEM special features

GEM has two particularly special features. The first is its focus on mainland China and Hong Kong companies. A by-country composition of GEM-listed companies shows that mainland China and Hong Kong companies combined account for more than 80% of both the total number of listed companies and total market capitalization (Figure 10). This dominance by companies from mainland China and Hong Kong is due to a previous restriction on eligibility for listing to companies registered in Hong Kong, mainland China, the Cayman Islands and the Bermudas. This restriction was, in turn, due to the need to protect investors from having to deal with the diverse laws and regulatory systems governing companies in different countries. Since 2010, however, this restriction on country of registration has been relaxed gradually and now companies registered in more than 20 nations, including Japan, are eligible for listing on the GEM. If this restriction on the country of registration is relaxed further, the proportion of foreign companies listed on GEM would likely increase.

Figure 10: Composition of GEM-listed companies, by country



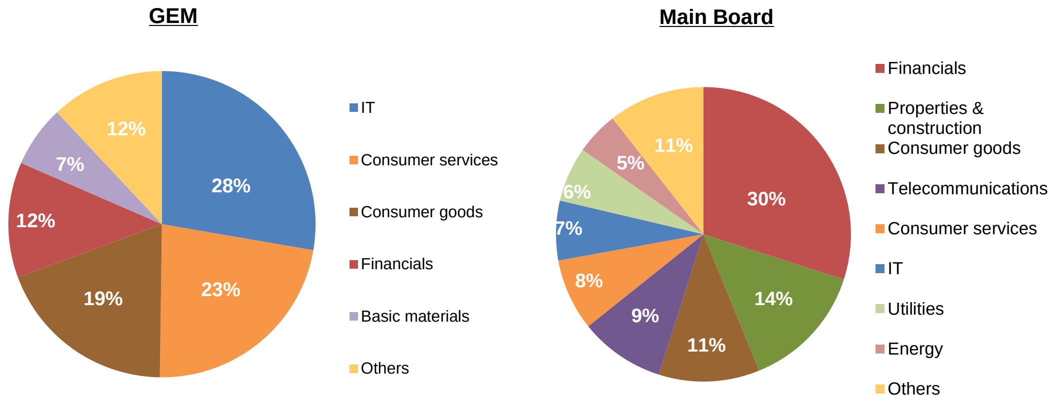
Note: 1. Many companies listed on GEM conduct their business in countries or regions other than their country of registration. Consequently, the data above is based not on companies' registered country but on the country from which they derive the largest percent of their sales. Furthermore, data is based on the 50 listed companies with the highest market capitalization, as of end-2014.

2. Other Asian nations include Pacific island countries.

Source: Nomura Institute of Capital Markets Research, based on annual reports of GEM-listed companies and Bloomberg

GEM's second special characteristic is the strong presence of IT companies. A comparison of the industry composition of market capitalization of companies listed on GEM with that for the Main Board, shows that while financials account for about 30% of companies listed on the Main Board, IT companies are predominant on the GEM, with a 28% share (Figure 11). This high ratio reflects GEM's origins as a market targeting emerging growth companies in technology-related sectors.

Figure 11: Comparison of industry composition of listed companies on GEM and HKEx Main Board



Note: 1. Composition is based on market capitalization as of end-2014.
2. Industry classifications are based on the Hang Seng Industry Classification System.

Source: Nomura Institute of Capital Markets Research, based on HKEx's quarterly report.

IV. Final thoughts

A listing on the Singapore or Honk Kong exchange has three merits. First, it can help the listing company increase name recognition and brand power in the Asian region. A listing for the purpose of raising name recognition and brand image can be an effective marketing strategy for companies seeking to build their business in the huge Chinese market or tap into the growing high-net worth individual market in ASEAN countries. Second, Asia's investor class is expanding and institutional investors from around the world have offices in Singapore and Hong Kong. A listing on the Singapore or Hong Kong exchanges therefore provides access to a broad range of investors. Companies are able to procure funds through new listings and then have access to additional funding via subsequent post-listing offerings[12]. In addition, expanding business in the Asian region might help listed companies gain a more favorable evaluation of their growth potential. Third, a listing and the resulting enhancement of name and brand recognition can make it easier for companies to attract high-quality employees, a key issue for companies seeking to build their business in Asia.

Although they may be interested in listing their shares on a Singapore or Hong Kong exchange, emerging growth companies will have a hard time qualifying for listing on the main boards in the early stages of their development. However, such companies may be good candidates for a listing on the Catalist or GEM, which have less demanding listing requirements. The development of these two emerging-company markets will likely be watched closely by companies and market participants alike.

[12] Subsequent capital procurements by GEM-listed companies in 2013–14 totaled about HK$17.0 billion. SGX does not provide similar data for Catalist, but according to Bloomberg the 50 Catalist-listed companies with the largest market capitalizations as of end-December 2014 raised a total of about S$500 million via post-listing capital procurements in 2013–14.