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Overseas Listing of Chinese Companies

-A Study Focusing on Listing on the London Stock Exchange for Chinese Companies

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Abstract

With the rapid development of China's economy, since the policy of reforming and opening-up was executed 20 years ago, China has become more involved in the global economy system. More and more Chinese companies started to enter the international stock markets for capital raising. Going public in the international stock exchanges is a good way for Chinese companies to get investments and capital to expand their business.

Today, about 70 Chinese companies have been listed on Hong Kong Stock Exchange, New York Stock Exchange etc. Most companies selected Hong Kong as the main stock market for capital raising due to the advantages and easy operation in Hong Kong. Now, over 300 new Chinese domestic corporations have applied and are waiting for the permission to list on Hong Kong Stock Exchange. But the process to get the permission will last over one and half a years. This is too long for those companies that are in urgent need of international capital. Many companies started to pursue capital from other international markets.

There are many other options for Chinese companies to issue shares. But, in this thesis, only listing on the London Stock Exchange is to be researched, mainly because London can be taken as the representative of European stock markets, and the writer of this thesis is going to do some research related to China and Europe purposely.

This thesis provides the basic knowledge of London Stock Exchange, and describes the general matters related to listing on London Stock Exchange including listing requirements and procedures. Furthermore, it conducts an analysis of the possibility and feasibility of Chinese company's listing in London, based on a integrated comparison to the listing on Hong Kong Stock Exchange. Its objective is to help Chinese companies get a better understanding of London Stock Exchange.

The analysis of empirical findings shows that London is a suitable stock market for Chinese companies. London can also provide Chinese companies with an ideal opportunity for capital raising. This thesis is expected to be valuable for Chinese companies seeking overseas listing, and anyone who has interest in this subject.

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Preface

Since the policy of reforming and opening-up in China was executed 20 years ago, China has been achieving great development especially economically.

After China adjusted its economic system from Planned Economy to Market Economy, the economy has moved toward greater decentralization of decision-making. A reliance on market forces, and on material incentives in order to provide motivation for the desired economic behavior and resource allocation has increased. Furthermore, the economy to external competition through foreign investment has been opened.

The emergence and development of the stock markets is one of the most important elements of China's reform in the financial system. More and more of China's enterprises have started to seek financial support and capital for further development from the capital markets through issuing shares in the stock exchanges.

Two domestic stock markets, Shanghai Securities Market and Shenzhen Securities Market, emerged at the beginning of 1990s and have been the main capital providers for China's public companies since then. With the economic development of globalization, China has become more involved in the international capitalization, and started to seek more international investment to help develop the economy. With the limited capital supporting capability of domestic capital markets, more and more of China's enterprises started to seek capital not only from domestic capital markets but also from international capital markets. Today, about 70 of China's companies have been listed on the international stock exchanges including Hong Kong Stock Exchange, New York Stock exchange, Nasdaq Stock Exchange, London Stock Exchange and etc[1].
Listing on the international stock exchanges has brought those China's companies financial support to further developments. And more China's companies are seeking listing on the international stock exchanges to get more

[1] http://www.csrc.gov.cn/CSRCSite/eng/tongjiku/199908/e-default.html

capital from international capital markets. Overseas listing has become an interesting and meaningful topic for many groups to research. These groups include more and more China's companies, international investment banks, financial institutions and other groups which are interested in the field.

1 Introduction

1.1 Background of China's Stock Market

1.1.1 The Emergence of China's Stock Market

The development of the stock markets is one of the most important elements of China's reform in its financial system. Before the late 1970s, the government virtually controlled all channels of investment strictly. All investments made by enterprises were either from direct grants from the state budgetary funds or from government allocated bank credits. The whole financial system of China was dominated by the state-owned banks, such as the People's Bank of China, a few specialized banks and their local branches. The bureaucratic process that allocated investments across regions and sectors was often inefficient, and in many cases, caused significant waste of resources.

Since the early 1980s, China's financial sector has experienced a number of major institutional changes. As the fiscal decentralization reform evolved the proportion of state budgetary finances in total investments has decreased rapidly. Many specialized banks were created or re-established, replacing the government budget funds as the main financial channels for enterprise investments. However, the interest rates are still controlled and highly depressed. Total credit of each bank branch is still limited by the central bank's credit plan, and all levels of government still constantly intervene into the banks' daily business as to which project to lend. Banks are forced to lend money to policy-oriented projects, and consequently leave some profitable projects under-financed. In many cases, especially during recessions, a promising firm's borrowing money from banks may involve high transaction costs. Many enterprises have found that they are no longer be able to rely on government grants or designated loans solely, and thus demanded a new source of finance.[2]

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[2] Li Chengdong, (2000), "Development of China's stock market", Beijing: Economy and Business Publsihing.

At the same time, individuals' income grew rapidly and a large proportion of them started to seek investment opportunities. Due to the lack of alternative financial instruments, individuals were forced to either hold cash or deposit in the state banks where interests were controlled at levels lower than the market rate. By the end of 1995, there was CNY 2194 billion in deposits in the state banks that accounted for 38 percent of GNP.[3]

In 1981, the central government started to issue treasury bonds to finance deficits. Various provincial and local governments, financial institutions, and enterprises have also issued their own bonds since then. Until 1989, total outstanding securities were dominated by bonds. At of the end of 1989, the total issue of securities amounted to CNY 166 billion, of which 99 percent were bonds. Although economists had long recommended and introduced a share-holding system to be the final solution to China's enterprise reform, until the late 1980s, there had been very limited experiments on share-holding system. The main reason was the government's unwillingness to accept the fact that state-ownership is inefficient and developing stock-holding companies means partial privatization.[4]

After years of intense debates Shanghai Securities Market and Shenzhen Securities Market were established respectively. In December 1990 and July 1991, two stock markets, the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE) were established. By the end of 1991, 14 companies were listed in the two stock exchanges. This marked the stock market's entry into the Chinese economic system officially and China's capital market's entrance into its formative stage.

1.1.2 Development of China's Stock Market

China's stock market developed quite rapidly. Compared to the initial 8 listed companies on Shanghai Stock Exchange and 6 on Shenzhen Stock Exchange in 1991, 851 companies had been listed on the two Stock Exchanges by the end of

[3] Li Chengdong, (2000), "Development of China's stock market", Beijing: Economy and Business Publsihing.
[4] Li Chengdong, (2000), "Development of China's stock market", Beijing: Economy and Business Publsihing.

1998. These companies have issued a total of 74.61 billion shares in the market and raised a total of CNY 355.31 billion (US$ 44.55 billion).[5]

The development of the stock market is accompanied with the reforming of state-owned enterprises' ownership and corporate governance structure, namely, the reform of the shareholding system and incorporation of state-owned enterprises. The stock market played a very important role during the process of the state-owned enterprise reform. Establishment of the stock markets played the greatest role in the promoting the reforming of state-owned enterprises.

1.1.3 Attracting Overseas Investors- B Share Market and Overseas Listings

To follow the tide of globalization, since the mid 1980s, the securitized financing has come into play in the international markets. As an emerging stock market, China has been growing at an astonishing pace. But to match the perfect standard of international stock markets particularly in terms of the degree of securitization, China's stock market is still in its infant stage. Internationalization is not only a must for the development of China's stock market, but also a need for opening up of Chinese economy to adopt international practice. Attempts to narrow the gap between China's stock market and other well established stock markets have been going on since the very beginning of China's stock markets establishment, which produced multiple effects and laid a foundation for further internationalization of China's stock market. The issuance of B shares, H(Hong Kong) shares, N(New York) shares and ADRs has attracted a considerable number of foreign investors and thereby have contributed a great deal to the internationalization of China's stock market.

In order to get capital from the international market, China's equity markets are connected with international capital markets through two channels, one is the issuance of B shares to foreigners by Chinese companies listed in China, the

[5] Li Chengdong, (2000), "Development of China's stock market", Beijing: Economy and Business Publsihing.

other is to list Chinese companies overseas. These two channels serve as alternative ways for China to attract foreign investment. The impact of B shares and overseas listing upon China is more than capital raising. More importantly, it represents the opening up step-by-step of domestic financial market to foreigners, which will eventually lead to profound changes.

1.1.3.1 Foreign Investment Shares Listed in China – B Shares

The B shares markets perfectly reflect the Chinese leaders' mixed feeling toward the internationalization of securities markets, coming into existence in 1991, namely, making use of foreign capital without shaking socialist public ownership.

B shares are denominated by Chinese currency (Renminbi), but are subscribed for, bought and sold in foreign currency, and listed and traded on securities exchanges in China. B shares can only be issued to overseas investors, which, according to the Chinese definition, shall include foreigners, persons from Taiwan, Hong Kong and Macao, and Chinese citizens that are residing abroad. Dividends and capital gains from B shares can be sent abroad freely despite China's comparatively strict foreign exchange control. Foreign securities firms can serve as dealers of B shares.[6]

The issuance of B shares was the first step towards internationalization of China's stock market. From then, a number of listed companies started to issue B shares. With sustained growth of Chinese economy, the size of the B share market expanded gradually. It attracted the overseas investors to invest in China's stock market. The system of transaction and settlement for B shares has been greatly improved. Lots of foreign security brokers were involved in the underwriting and transaction of B shares.

Apart from the substantial development of the B share market, the volatility and stagnation of the B share market were also the main concerns of policy-makers. In retrospect of B shares on secondary markets, B share index

[6] Li Chengdong, (2000), "Development of China's stock market", Beijing: Economy and Business Publsihing.

increased between 75 and 100 percent in 1993. From September 1994, B share index declined sharply and remained sluggish for almost two years. The index soared during 1996; however, much of the activity has been attributed to illegal speculation by Chinese investors. At the beginning, there was quite an enthusiastic initial response to the introduction of B shares, and the demand for B shares is high. But due to the lack of the uniform guidelines, this enthusiasm has soon turned sour which led the price to plummet. Other reasons include nonstandard accounting practices, a shortage of information on listed companies, a lack of appliance to publish annual reports.[7]

1.1.3.2 Overseas Llisting

Compared to B share market, overseas listings showed more transparent and standardized information disclosure and they are also less volatile than B shares and therefore offer better returns. They are more successful for their reputation and stock turnover. From the listing of Qingdao Beer on the Hong Kong Stock Exchange on July 15, 1993 to Yanzhou Coal IPO and dual listing in Hong Kong and New York in April 1998, 43 enterprises listed overseas, raising more than USD 10 billion. Of the 43 firms, 31 were listed in Hong Kong, 8 were dual listed in Hong Kong and US, 2 dual listed in Hong Kong and London, 1 was listed solely in the US and 1 solely in Singapore.[8]

Table 1

Summary for China's Overseas- listed Companies (as to Nov, 2002**)**

(H means state owned company)

Total Number of H Shares	H Shares in USA Only	H Shares in London Only	H Shares in Singapore Only	H Shares in HongKong Only	H Shares in HongKong & USA	H Shares in HongKong & London
76	1	3	1	57	11	3

Source: www.csrc.gov.cn/CSRCSite/eng/tongjiku/200211/e-default.html

[7] http://www.csrc.gov.cn/CSRCSite/eng/eol/eolintr.htm(official website of China Securities Regulatory Commission)

[8] http://www.csrc.gov.cn/CSRCSite/eng/eol/eolintr.htm

1.2 Research Issue

As overseas listing is an important policy for the reforming and opening-up of Chinese enterprises to the outside, more and more Chinese enterprises are seeking overseas listing to enter the international capital market for financing.

According to the data of statistics, Hong Kong is obviously the major capital market which provides financing to Chinese overseas listing enterprises today. Now, over 50 Chinese domestic corporations have been listed on Hong Kong Stock Exchange. Most Chinese companies select Hong Kong as the first choice for their overseas listing because as a special district of China, and Asian financial center Hong Kong has many advantages to be chosen by Chinese companies to issue shares. Briefly, Hong Kong's advantages include the same language as China's mainland, its strong finance raising ability in Asia and investors' easy acceptance to Chinese companies etc. (Notice: The research about listing on Hong Kong Stock Exchange and why Chinese companies chose Hong Kong as the first choice has been extensively conducted and it's not the aim of this thesis)

But there now exists a big problem that cumbers Chinese companies' going public in Hong Kong. The problem is: Now that there are over three hundred Chinese domestic corporations which have applied and are waiting for the permission to list shares on Hong Kong Stock Exchange. But the process for a Chinese company to get the permission to get IPO(initial public offer) in Hong Kong will take over one and half a years or even longer under the supervision of Hong Kong Stock Exchange.[9] Most prospective companies have to be on the waiting list for a long time. But it is impossible for all the prospective companies which urgently need international capital to wait for such a long time. Being listed on the Hong Kong Stock Exchange has become more time-costing than ever for the prospective companies. Many of those Chinese companies then started to seek listing shares in other international stock exchanges instead for capital raising.

[9] http://finance.sina.com.cn/(2002-09-20)

Besides Hong Kong Stock Exchange there are also many other big international markets for Chinese companies to raise capital. Listing on other international stock exchanges provides another avenue for those Chinese companies that urgently need international capital.

But going public on other international stock exchanges is still a new topic in China. It has only been about 10 years since the first Chinese stock was listed on the Hong Kong Stock Exchange. The history of China's company's overseas listing is very short and the experience is still limited. Going public abroad is still a new topic for most Chinese companies. For those Chinese companies that are interested in seeking overseas listing, more knowledge of listing on international stock markets including the general situation of the stock exchanges, how to issue shares on different stock exchanges and advantages of various stock exchanges, are in a great need of more researches related to Chinese company's overseas listing are also demanded eagerly especially by those prospective Chinese companies in China.[10] *Because China's stock market is still in its early stages and unstable relatively, along with the China's economic system reforming from Planned Economy to Market Economy, more researches about China's stock markets should be conducted in the future.*[11] Being an important part of China's stock market's development, overseas listing has not yet been researched extensively. This thesis is going to provide some knowledge and analysis for those companies and groups who are interested in this topic.

Besides the Hong Kong Stock Exchange, there are some other international stock exchanges to be chosen to issue shares for Chinese companies such as New York Stock Exchange, Nasdaq Stock Exchange, Tokyo Stock Exchange, London Stock Exchange, Singapore Stock Exchange and etc. Each one of these stock exchanges can be considered as an option for prospective Chinese companies. But due to the tremendous workload and limitation, it is too difficult for the thesis writer to study all the optional stock exchanges. This

[10] Gu Huizhong, (2002), "International Stock Exchanges Promoted in China to Attract More China's Companies for Overseas Listing", Beijing: "China Securities", Sept 20. ("China Securities" electronic version Sep 20 2002, http://202.84.17.28/csnews/20020920/311186.asp)

[11] Li Chengdong, (2000), "Development of China's stock market", Beijing: Economy and Business Publsihing.

thesis is only going to focus on the Chinese company's listing on the London Stock Exchange.

In this thesis, only research on listing on the London Stock Exchange will be conducted. The main reason is that this thesis is conducted in Europe and the thesis writer wants to do a research which is related to China and Europe purposely. The London Stock Exchange, being the financial center and largest capital market in Europe, can be taken as a representative of Europe.
When it comes to the research issue of this thesis, whether the London Stock Exchange is a considerable capital market for prospective Chinese companies, and how to issue shares in London will be the main research issues of this thesis. And all the study in this thesis will be concentrated on these issues.

1.3 Objective of The Study

The main objective of this thesis is to help Chinese companies to obtain a better understanding of the London Stock Exchange. The aim of the thesis is to provide Chinese companies with meaningful research on going public in London. This thesis is to describe the basic listing requirements, procedures of the London Stock Exchange, and then analyse whether London is a considerable capital market for Chinese companies, trying to outline the way, and find opportunities and feasibility for Chinese enterprises to be listed on the London Stock Exchange.

1.4 Scope and Limitations

In order to accomplish a research project, a lot work has to be done and a lot of time has to be spent on describing what kind of methods, theories and empirical findings are used in this project. All the directions conducted are briefly discussed in this part to increase the understanding for the readers.

The methodology chapter will try to describe the approaches used in the thesis in order to make it possible to answer the research issues. It will also discuss how the research influenced the working process.

The theoretical part of this thesis will include the concepts and theories which are concentrated on stock market, initial public offer(IPO), going public, overseas listing, listing requirements, listing procedures and theory of selecting a stock exchange to issue shares.
The empirical study is limited to the research focusing on Chinese company's listing on the London Stock Exchange. But Chinese company listing on the Hong Kong Stock Exchange will be taken to make a comparison with London Stock Exchange. The reason why such a comparison to be conducted is that Hong Kong Stock Exchange, as the first choice for Chinese company's overseas listing, is well known and has been researched widely by most prospective Chinese companies. Making a study based on comparison between listing in London and Hong Kong will make it more easily understood for those companies and groups with interests in this subject.

The thesis is written primarily for anyone who is interested in the prospect of Chinese company's overseas listing on the London Stock Exchange. The readers are supposed to mainly include the Chinese companies that are seeking or will seek overseas listing, securities institutions, investment banks and other groups.

2 Research Methodology

2.1 Research Design

To develop an efficient and relevant research design and strategy is an important notion of the research process in the thesis work. The strategy will ensure that the data collected are consistent with the objectives of the study. A research design describes how the samples, measures and treatments are implemented in the progress of the study in order to assess the effects and outcomes of a certain treatment. Various research designs have certain advantages and disadvantages depending on the objectives of the study. There are five main categories of research design approaches: descriptive, explanatory, explorative, predictive and prescriptive.[12]

The descriptive approach is primarily used when the research is interested in

showing the characteristics of a specific and often well- defined problem.

The explanatory approach is that the research wants to establish causal relationships between a fairly large number of variables. The explorative approach is used when the researcher has limited knowledge about the subject area and there is a need to identify what research issues to address. This approach is common during the initial phase of larger research projects in order to specify the certain research problems.

The predictive approach is adopted when the researcher aims to do a prognosis for the future development of a phenomenon. Meanwhile, this does not mean that the researcher has established any causal relationships underlying the development.

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[12] Peter Lantz, Niklas Ramstedt, Johan Stebrant, (2001), "Valuation procedures for portfolio investmentss-a comparative study between investment companies in Sweden, the United Kingdom and the United States, Graduate Business School of Göteborg University.

The prescriptive approach is based on the research identifying what should happen or ought to be done. This approach often includes elements of value judgements and theoretical speculations.

The research conducted in this thesis is based on a combination of a descriptive, an explorative and a predictive approach. The descriptive approach is used when describing the phenomena but there is no attempt to generalize the certain findings into theory. In the descriptive approach only the essential aspects of the phenomenon are investigated.

The explorative approach, as stated above, is used when the researcher has a limited knowledge about the subject area and there is a need to identify what research issues to address. An explorative approach has been applied because the thesis is not based on past research since the number of research projects conducted on such an issue are limited. Another reason why using the explorative approach is that the objective is not to draw any statistical conclusions based on the empirical findings.

The predictive approach which is adopted when the research is to make a prognosis for the future development of a phenomenon is applied in this thesis, because the aim of the thesis is to explore the prospect and some solutions about Chinese company's future overseas listing on the London Stock Exchange under a basis of comparison with listing on the Hong Kong Stock Exchange.

2.2 Method for Data Collection

Data collection is an important part of the research methodology applied in the thesis. Commonly, the data can be distinguished to two different types: primary data and secondary data. Primary data is the information collected and used for the first time, through the direct examination usually. Whereas secondary data consists of information already available, i.e. the information has been collected or produced by a third party and perhaps for a different purpose. Secondary data can be divided into two sub categories, internal and external. Internal secondary data are available within the company/organization and external secondary data are provided by sources outside of the company/organization. Relevant data can be obtained from a variety of sources.

This thesis will be based on the external secondary data form the relevant home pages of different stock exchanges, official organizations, companies' annual report, publications and documents of related companies and organizations. Due to the difficulty to obtain the primary data, secondary data is used in the thesis for the basis of researching mainly. With the convenience of secondary data collection via Internet, and other networks, it provided the possibility to establish a thorough understanding of the thesis.

The literature used in this research gives a framework for the analysis of the study. The information about relevant literature is gathered from the library computer systems LIBRIS and GUNDA and the Internet.

2.3 Research Evaluation

When conducting research of any kind, it is of great importance to measure the quantity of possible faults and errors that might influence the quality of the empirical findings. In order to decrease the effect of these kinds of errors, there are a few tests that can be used to estimate and judge the significance of the research. These tests are known as the research validity and reliability. To be able to achieve a high level of credibility for the conclusion presented in this thesis, it is important to demonstrate that the research was designed and conducted in such a way that it identifies and describes the phenomenon accurately that was investigated. In order to do this it is important to describe issues concerning the research projects validity and reliability.

2.3.1 Validity

Validity address the issue of whether the research actually measures the things it aims to measure and that nothing irrelevant affects the result. Validity can be divided into constructive, internal and external validity. Constructive validity concerns whether there is a correct relationship between theories and empirical findings. Internal validity approximates truth about inferences regarding causeeffect or causal relationships. External validity considers whether the findings can be generalized and provide conclusions regarding other situations than the specific case.

In order to achieve a high level of validity, all the data and information collected in this thesis are obtained from the direct connection. Beginning with a current market environment study, supported by theoretical fruits and the real comparison, I believe the thesis could be valuable for targeting groups.

The external validity concerns the study with all its contents in a wider perspective, that is, if it is possible to generalize from the study. My study is on a general and uncomplicated level. China's enterprises seeking overseas listing, investment banks and financial institutions are the main targeting groups. Started from current business environment study, supported by theoretical fruits and the real comparison, I believe my thesis conclusion could be valuable for the targeting groups in seeking overseas listing.

2.3.2 Reliability

Reliability considers the quality of measurement. It clarifies to which extent the findings can be replicated when using the same research method, i.e. if the measurement tool will generate the same or similar results if another researcher who follows the same procedure replicates it.

Reliability depends on the accuracy of the measuring instruments or techniques. Things that can make the reliability low are, for example, wrong samples, problem with standardization in the interviews and problem in interpretations, etc.

During the study many precautions and information verification has been performed which implies that the research has not made significant errors that impact the reliability of the thesis. Because the analysis is based on the external information provided the analysis will be based on the researcher's own interpretations of the empirical information. The thesis is trustworth since all sources of information were documented carefully. Furthermore, the empirical findings have a good relation with theories which enhanced the reliability and the findings concluded are significant and the study is reliable.

3 Theoretical Framework

3.1 Introduction

This chapter outlines the theoretical framework related to the research issue. The theories included in this chapter are the basis for the analysis of empirical findings.

Some basic concepts and theories which are the basis related to the following studies will be described in this chapter. These concepts and theories include *stock exchange*, *initial public offer(IPO), going public, overseas listing, listing rules, IPO process and theory of selecting a stock exchange* will be demonstrated in this chapter.

3.2 Basic Concepts

3.2.1 Stocks

Stocks are among the most talked about and most popular investment opportunities available. Shares of stock represent partial ownership in a company. That means when you own a share of stock, you actually own a part of the company. This means that you have a say in how the company is run and that you have a claim on the company's profits if and when they are paid out in the form of dividends. Ownership in the company is determined by the number of shares you own divided by the total number of shares outstanding.

3.2.2 Stock Exchange

Stock exchange is a centralized system, whether it be in a physical building or on a virtual network, which provides stock buyers and sellers a place to buy and sell shares of a company that is already public.

3.2.3 Initial Public Offer

Private companies initially sell their stock to the public through a process called an initial public offering(IPO). Initial Public Offering (IPO) is the first time a company sells its stock to the public. Sometimes IPOs are associated with huge first-day gains and in other times, when the market is cold IPOs become flop.

3.2.4 Going Public

If a corporation decides that it is going to perform an IPO, it will first hire an investment bank to facilitate the sale of its shares to the public. This process is commonly called "underwriting"; the bank's role as the underwriter varies according to the method of underwriting agreed upon, but its primary function remains the same.

3.2.5 Overseas Listing

Some firms seek listing on foreign exchanges to accomplish various objectives like overcoming mispricing in segmented and illiquid home capital markets. Although barriers universally exist to overseas listings, many firms still seek overseas listing to get benefits.

3.2.6 The Listing Rules

The Listing Rules provide a more comprehensive set of rules to be observed by an issuer who lists and has securities quoted on the Exchange (the secondary market) in addition to statutory and common law. They are administered and enforced by the independent market surveillance panel. The issuer of any security listed on stock exchanges must comply with the listing rules.

This is a contract, enforceable for the benefit of all shareholders, between the stock exchange and the issuer. The main objective of the stock exchange is to operate an open and efficient market. A reliable flow of information is vital to the attainment of this goal.

The main features of the Listing Rules aimed at protecting shareholders and investors are[13]:

- ♦ Release of price-sensitive information
- ♦ Governance Principles
- ♦ Rules relating to directors
- ♦ Minimum ownership rules
- ♦ Specified release of financial information
- ♦ Transactions with associated parties
- ♦ Limits on unequal treatment of shareholders
- ♦ Takeover Provisions

3.2.7 Process of IPO

Generally, when a company decides to go public, it needs to pick its IPO team, consisting of the lead investment bank, an accountant, and a law firm. All the members of the IPO team plan a timetable for going public and assign certain duties to each member. The most important and time-consuming task facing the IPO team is the development of the prospectus, a business document that basically serves as a brochure for the company. The prospectus includes all financial data for a company for the previous years as the requirements of different stock exchanges, information on the management team, and a description of a company's target market, competitors, and growth strategy. There is a lot of other important information in the prospectus, and the underwriting team goes to great lengths to make sure it's all accurate. In the meantime, the lead underwriter must then assemble a syndicate of other investment banks that will help sell the deal. Each bank in the syndicate will get a certain number of shares in the IPO to sell to clients. The syndicate then gathers indications of interest from clients to see what kind of initial demand there is for the deal. Syndicates usually include investment banks that have complementary client bases, such as those based in certain regions of the country. [14]

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[13] The New Zealand Stock Exchange, (12 April, 2002), "Fact Book 2001", section 3, Listing Rules.

[14] Tim Jenkinson, Alexander Ljungqvist, (1996), "Going public: the theory and evidence on how companies raise equity finance", Oxford: Clarendon Press.

The next step in the IPO process is the road show. The road show usually lasts a few weeks, with company management going to a new city every day to meet with prospective investors and show off their business plan.

Once the road show ends and the final prospectus is printed and distributed to investors, company management meets with their investment bank to choose the final offering price and size. Investment banks try to suggest an appropriate price based on expected demand for the deal and other market conditions. This is usually done after a market closes, with trading in the new stock starting the next day as the lead underwriter works to firm up its book of buy orders.

Once the offering price has been agreed on, an IPO is declared effective.

3.3 Theory of Selecting A Stock Exchange

Selecting the right market for listing the company's shares is more art than science. It generally involves weighing up a number of factors for each market and selecting the one(s) which most closely meet your overall needs.[15] Factors for consideration include:

3.3.1 Impact on Strategic Development

The investor relations programme the company will engage in will provide a channel for communication with the wider business community and may enable the company to improve the profile and status with customers, suppliers, strategic partners and acquisition candidates. Whilst the vast majority of businesses still list primarily in their home markets, an overseas (possibly dual) listing can reinforce the international nature of the business and demonstrate commitment to a global strategy.

The ability to attract and retain employees at all levels may be enhanced through the use of listed share-based remuneration. Consider where key employee groups are likely to be based and whether listing in any particular market is likely to find favour with them.

[15] PricewaterhouseCoopers, (March 2002), "Entering the European Capital Market", London.

3.3.2 Valuation Considerations

The investor base in each market may be different (e.g. spread of institutional versus retail investors). Is there likely to be an adequate and knowledgeable analyst following for your company, not just at IPO but also later? Will the investors understand your company, are they likely to remain loyal?[16]

Value development at and post IPO should be considered as well for example, whether the company is eligible for entry to any key stock indices, if considering an overseas listing is there evidence of a strong appetite for foreign issues?

3.3.3 Initial Listing Requirements

The minimum criteria for new capital issue or overall offering size and whether they fit the company's strategy should be considered. Any restrictions on offerings of existing shares or any minimum lock-up periods which might present a problem for any of shareholders should be paid attention to as well.

The minimum public float to be acceptable to existing (particularly controlling) shareholders? is another important aspect. Whether there are restrictions on levels of shares which may be held under option is another area where there may be market expectations. Whether there are any restrictions on intervention in the company's affairs by controlling shareholders which may be an issue.

The level of public disclosure about ther business is likely to be high whichever listing option the company selects. However, the company may have to make decisions about adopting or reconciling the financial information to another GAAP. If the company has made significant acquisitions, it may have to disclose separate financial information about these.

3.3.4 Continuing Obligations

[16] PricewaterhouseCoopers, (March 2002), Entering the European Capital Market, London.

The financial information concerning what the GAAP requirements are (e.g. IAS, US GAAP or National GAAP), what the required frequency of reporting is and whether the company has financial reporting systems of a sufficient standard to do so should be considered.

Transaction disclosures are also important to be considered that what the listing requirements and market practices that govern future acquisitions and disposals are. The standards of public notification and whether the company need to obtain prior shareholder approval should also be considered.

What are the practices and requirements in each market of and how do they impact on the corporate structure and internal reporting systems are the main issues to consider when it comes to the corporate governance.

3.3.5 Stock Exchange Fundamentals

Liquidity and depth is normally driven by such factors as whether there has generally been an historical equity culture in the listing centre, the locus of institutional investors and their appetite for equity investment (including foreign stocks) versus other risk assets such as government and corporate bonds and the quality and depth of the analyst community.[17]

High regulatory standards are generally a sign of a quality market. An efficient and respected regulatory environment is normally reflected in market confidence and hence liquidity and share price performance. The company should consider which markets possess high securities regulatory standards and an effective regulatory authority with a reputation for protecting investor interests.

The company should notice which exchanges show strategic awareness and an understanding of the future of the global capital markets. The cost of transferring to another exchange in the future may be expensive. As to the investors relations, which exchanges offer the company the most relevant

[17] PricewaterhouseCoopers, (March 2002), Entering the European Capital Market, London.

technologies and services, for example, good indexation, news dissemination services, internet access and website advice and assistance and investor relation services should be considered mainly.

3.4 Summary

This chapter has outlined the theoretical framework related to the research issue. Some basic concepts and theories have been demonstrated in this chapter and this chapter is illustrated for the understanding for the following part of the thesis.

4 Empirical Findings and Analysis

In this chapter, the empirical findings and analysis of listing on the London Stock Exchange will be demonstrated. The first part is going to describe the general information of the London Stock Exchange and the listing process on its main market. The second part will make an analysis of whether *London is a considerable stock market for Chinese company to issue shares?* The analysis will be concentrated on the advantages of the London Stock Exchange itself for international companies and a comprehensive comparison between listing on the Hong Kong Stock Exchange and the London Stock Exchange for Chinese companies will be illustrated to find similarities and difference between them. In that way, the question that whether London is a considerable capital market for Chinese companies especially those which seek overseas listing from Hong Kong to London could be answered. The third part is to discuss some problems Chinese companies may meet when seeking going public in London. And finally, a summary of this chapter will be given.

4.1 Practical Study-How to Get Listed on London Stock Exchange

4.1.1 Introduction to London Stock Exchange

4.1.1.1 General Introduction

The London Stock Exchange is one of Europe's leading stock exchanges and one of the world's leading equity exchanges. It is a leading provider of services that facilitate the raising of capital and the trading of shares.

Since its origins in the seventeenth century, the London Stock Exchange has become one of the largest stock exchanges in the world. Furthermore, it is the most international of all stock exchanges.
At June of 2001, 482 international companies that were from over 60 countries were listed and traded on the London Stock Exchange, in addition to approximately 2,430 domestic companies admitted to trading. Turnover in

international companies on the London Stock Exchange during the calendar year 2000 reached some US$4.6 trillion.[18]

London is Europe's leading financial centre and one of the principal investment centres worldwide. London is the principal centre for Eurobond underwriting and trading, with a market share of some 70 per cent. It hosts the world's largest foreign exchange market. And two-thirds of all international equity underwriting occurs in London. Moreover, London has the world 's most active international equity market with more international trading taking place on the London Stock Exchange than on any other exchange in the world.[19]

The London Stock Exchange provides the markets and means of raising capital for UK and international companies through equity, debt and depositary receipt issues. The opportunity to buy and sell shares in the companies is given to the investors of all types. The following table show some facts and figures of London Stock Exchange.

Table 2

Facts and figures

Companies admitted 31.05.01	2,364 listed companies – including 482 international 567 AIM companies – including 36 international Over 8,000 Eurobonds
Turnover year ended 31.05.01	US$2,637bn UK US$5,260bn international
Market capitalisation 31.05.01	US$2,397bn UK US$4,701bn international

Source: 2001 Annual report of London Stock Exchange

[18] 2001 annual report of London Stock Exchange
[19] 2001 annual report of London Stock Exchange

4.1.1.2 Operations of The Exchange

The operations of the London Stock Exchange are divided into five core business services. They have a shared focus on maintaining and enhancing high standards of customer service. They also help to increase the reach and scale of the business by building on the core capabilities. The five core business services include[20]:

Issuer services:

- developing and operating markets to facilitate the raising of capital and the trading of securities
- pursuing initiatives to attract new companies to its markets
- supporting companies already admitted to trading and
- attracting new institutional investors.

Brokers services:

- operating a range of electronic trading services - including the SETS electronic order book for the most liquid stocks - enabling price formation and trade execution
- intent on expanding its customer base and capitalising on its extensive network of market participants to provide new value added products and services.

Information services:

- providing high quality, real-time prices, news and other information to over 107,000 installed terminals in over 100 countries world-wide
- diversifying its information services revenue by providing new services to a wider customer-base.

Market operations:

[20] 2000 annual report of London Stock Exchange

- intending to maintain and promote its internationally recognised standards of regulation through the rigourous application of an appropriate framework of rules and market practices which operate alongside the Listing Rules.

Technology services:

- continuing a programme of enhancement to the trading technology that supports the markets
- buying in leading-edge technology when appropriate and
- seeking further opportunities to leverage its IT skills to provide innovative solutions to other exchanges and market participants
- investing heavily in the development of SEQUENCE, a top performing platform for the trading of securities.

4.1.2 How to Issue Shares on the London Stock Exchange

4.1.2.1 Research Target-Listing on The Main Market of London Stock Exchange

There are three markets operated on London Stock Exchange which are designed to cater to the needs of a wide variety of companies and their investors. They are the main market, AIM market and landMARK market.

The main market is the market for larger, established companies. The main market includes teckMARK(the international market for innovative technology companies) and teckMARK mediscience(the international market for healthcare companies). AIM is an international market for smaller growing companies. LandMARK is a market for regional companies and their investors.

Most public companies are listed and traded on the main market of the London Stock Exchange. The main listing and trading of the shares of international companies take place in the main market of the London Stock Exchange. In this thesis, it is on the assumption that the Chinese companies seek going public on the main board of London Stock Exchange and only listing on the main market is researched.

4.1.2.2 Listing Requirements for Prospective Companies

Whatever type of listing the company is seeking, the UK Listing Authority (UKLA) – the department of the Financial Services Authority that oversees listings in London – has put in place a number of basic requirements that must be met before the listing can be granted and the exchange can admit the shares to trading.

In this thesis, only listing on the main market of London Stock Exchange will be researched and demonstrated. Generally, listing on the main market is called *Official List* in London.

The requirements placed on all companies wishing to list shares on the Official List in London Stock Exchange include:

Sponsors

In order to become listed on the Official List in London Stock Exchange, a company will need to appoint a sponsor.

Every company applying for a listing must be represented by a 'sponsor', which will usually be an investment bank, stockbroker, law firm or accountancy practice. The sponsor, which must meet certain qualifications, provides the link between the company and the UKLA and guides the company through the listing process.

The role of a sponsor includes[21]:

- being responsible for the communications with the Financial Services Authority (which is the UK Listing Authority).
- checking that the company can satisfy the conditions for listing.
- ensuring the directors have had explained to them the nature of their responsibilities and obligations as directors of a listed company.

[21] Frederick D. Lipman, (2000), "The Complete Going Public Handbook", Roseville, California: Prima Publishing.

- obtaining confirmation that the directors have established procedures for them to make proper judgments as to the financial position and prospects of the company.
- obtaining confirmation from the company that the working capital is sufficient for present requirements and ensuring there is written confirmation of the financial facilities available to the company.

Trading Record

In general, a company applying to list in London needs to have a trading record of at least three years. However, the UKLA's rules also allow certain types of company – such as scientific research-based companies and fast-growing innovative technology businesses – to list with a shorter trading record, as long as they meet certain additional criteria.

Accounts which are reported on by the auditors without qualification or reference to a matter of fundamental uncertainty and the latest accounts must not be older than 6 months. The record should be independent revenue earning from business.

Management

The directors and senior management must also have collectively appropriate expertise and experience for the management of its business. Directors must be free of conflict between duties to the company and private interests and other duties.

Also where there is a 30% or more shareholder, the listed company must be capable at all times of operating and making decisions independently of that shareholder. All relationships with that shareholder must be at arm's length and on a normal commercial basis.

There must also be a working capital statement, made after due and careful enquiry, that the company has sufficient working capital for its present requirements; that is for at least the next 12 months.

Admission to Trading

Securities must be admitted to trading on a recognised investment exchange (such as the London Stock Exchange) for listed securities. Admission to listing and admission to trading together constitutes official listing on a stock exchange.

Shares in Public Hands

The minimum market capitalization of the company should be £700,000 (around US$1 million), and at least 25 per cent of its shares should normally be owned by people unconnected to the business.[22]

The people unconnected to the business does not include:

- a director or his connected persons
- trustees of employee share schemes or pension funds for the listed company
- any person who has the right to nominate a director and anyone interested in 5% or more of the relevant shares unless the UK Listing Authority otherwise agrees.[23]

If the percentage falls below 25%, the UK Listing Authority may suspend or cancel listing.

Controlling Shareholders

The UKLA also has to be satisfied that the company is able to operate as an independent entity, especially where it has a controlling shareholder for whom conflict of interest may arise.

The Prospectus

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[22] London Stock Exchange, (2002), "A Practical Guide to Listing", London Stock Exchange plc, London EC2N 1HP.

[23] London Stock Exchange, (2002), "A Practical Guide to Listing", London Stock Exchange plc, London EC2N 1HP.

The company and its advisers must publish a prospectus which complies with the UKLA's Listing Rules. The prospectus provides potential investors with the information they need to make an informed decision on the company and its shares. It must include information such as independently-audited financial figures, details of the directors' salaries and contracts, and information on major shareholders.

Continuing Obligations

Once the company's shares have been listed and admitted to trading, it must fulfill a number of obligations on a continuing basis. These include producing half-year and independently-audited full-year financial reports within a set timeframe, and notifying the market of any new price-sensitive information.

All the Chinese companies seeking going public in London must fulfill all the listing requirements mentioned above.

4.1.2.3 Listing Process

The admission process to the main market of the London Stock Exchange varies according to the type of listing and securities that are to be traded. In general, however the key steps to admission are:

The first step is to appoint a sponsor - a full list of approved sponsors can be obtained from the UK Listing Authority (UKLA), a division of the Financial Services Authority (A listing agent will be required in place of a sponsor for DRs and specialist securities).

Then the financial statements according to UK GAAP, US GAAP or IAS for an share listing should be produced.

In order to join the main market the sponsor (or a listing agent) will need to apply separately on the company's behalf to the United Kingdom Listing Authority UKLA - for securities to be admitted to the official list and the London Stock Exchange - for its securities to be traded on the Exchange.

Once both processes are completed, the securities are officially listed on the London Stock Exchange.

This process is governed by the admission and disclosure standards which contain admission and ongoing disclosure requirements to be observed by companies seeking admission, or already admitted, to trading on the markets for listed securities.

4.2 Analysis-Is London a considerable capital market for Chinese prospective companies to issue shares?

This part is to analyze whether London is a considerable capital market for Chinese prospective companies from Hong Kong to London. The analysis will be divided into two parts. The first part of the analysis is from the perspective of the London Stock Exchange itself to show the advantages of London Stock Exchange itself and the second part of analysis is to make an integrated comparison between listing in Hong Kong and London to find whether it is easy for Chinese companies to shift from listing in Hong Kong to listing in London. Such comparisons are based on the theory of selecting a stock exchange from the publication, *Entering the European Capital Market*[24].

4.2.1 General Advantages of Listing on London Stock Exchange

4.2.1.1 London-the Europe's Leading Financial Center

London is Europe's leading financial center and one of the principal investment centers worldwide. London is also home to a range of large, vibrant and successful financial markets. For example, London is the principal center for Eurobond underwriting and trading, with a market share of some 70 per cent; it hosts the world's largest foreign exchange market; and two-thirds of all international equity underwriting occurs in London. London's size and

[24] PricewaterhouseCoopers, (March 2002), "Entering the European Capital Market", London.

location means it provides the ideal gateway to Europe for companies and investors from all over the world.

More than 550 international banks and 170 global securities houses have set up offices in London.[25] Their expertise is available to issuers from all over the world including China, adding to the benefits London offers to international companies.

4.2.1.2 World's Most International Equity Market

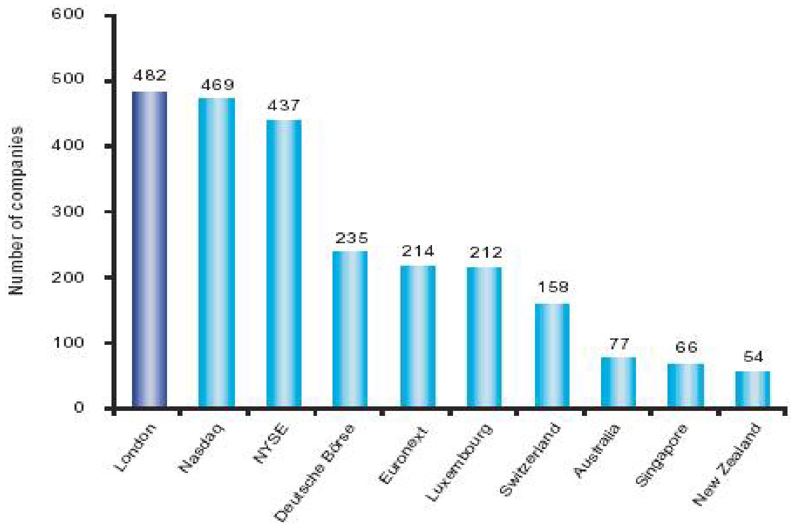
The London Stock Exchange is the world's most international equity market. It has more international trading than any other exchange in the world.

Around 500 international companies from 63 countries are listed and traded in London. In 2000, turnover in international securities in London totaled around US$5 trillion. No other exchange in the world can compete with these in serving international issuers.[26] More international companies have chosen to list on London Stock Exchange than on any other market in the world. Hundreds of issuers from all over the world are already benefiting from being traded on London Stock Exchange and more are joining the market every year.

[25] London Stock Exchange, (2002), "London: the first choice for international companies", London Stock Exchange plc, London EC2N IHP. 1HP.
[26] London Stock Exchange, (2002), "London: the first choice for international companies", London Stock Exchange plc, London EC2N IHP.

Table 3

Top 10 stock exchanges by number of foreign companies as at May 31, 2001[27]



Source: FIBV/FESE, May 2001

4.2.1.3 The Advantages of Listing in London

London is an accessible and attractive market for both international issuers and investors. A London listing has many advantages to offer Chinese companies seeking to raise capital and to claim a greater share of the attention of international investors worldwide.

Listing in London can help introduce Chinese companies to the international investment community or serve to strengthen the existing ties with the global investors. It confirms to the world that the company is a real international and well-managed business. Then the investor's interest and confidence will increase. As a result, a listing on the London Stock Exchange has the potential to enhance both the day-by-day trading in Chinese companies' shares and the ongoing corporate funding opportunities for the companies. The benefits of listing on London Stock Exchange include:

Access to the world's largest pool of international investment capital- As the world's largest equity fund management center, London provides Chinese

[27] Source: http://www.whitepage.co.uk/publications/pdfs/Japan02.pdf

issuers superb access to large institutional investors. Accounting for over 80 per cent of all trades, institutions dominate equity investment and trading in London. Institutional investors are a very valuable source of capital, as they tend to take a long-term view on companies particularly, thus providing greater stability-especially in volatile market conditions.

Today, more than a third of all worldwide institutional equity holdings are managed in Europe. The figure represents some US$4,000bn worth of investment capital. And within Europe, as the undisputed center, London manages over half of Europe's institutional equity capital. Over 40 per cent of this is invested in non-UK equities. Issuers can also gain access to international funds through London. UK fund managers manage well over US$700 billion on behalf of overseas investment funds, of which around half is sourced from North America.[28]

A high proportion of institutional funds invested in non-domestic securities-The European investment environment is extremely receptive to international companies. And London has the most international outlook among all Europe's financial centers.

On average, around 20 per cent of the portfolios of UK institutions is invested in overseas securities, mainly equities -a much higher proportion than that usually invested in foreign securities by fund managers in other countries.[29]

Experienced international investors across a wide range of industry sectors-International investors in London have built up a wealth of expertise in investing in companies based outside the UK, carefully researching the prospects of each company and the economic environment in which it operates. Being a very large stock market, the London Stock Exchange is not dependent on any single sectors and the companies listed on its markets include most of the major economic sectors, ranging from telecoms, IT and aerospace to utilities, banks, consumer groups, manufacturing and resources companies.

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[28] London Stock Exchange, (2002), "London: the first choice for international companies", London Stock Exchange plc, London EC2N IHP.
[29] 2001 annual reoport of London Stock Exchange

Institutional investors are accustomed to analyzing the investment potential of individual companies within the international environment in which they operate.

This is particularly important in the event of economic difficulties such as the financial turmoil in South East Asia in 1997-98 or the Russian debt default of 1998. In these circumstances, experienced institutional investors will tend to look at the basic fundamentals of the business and take a professional, long-term view. This means that a market like London, which is dominated by institutional investors, can offer international companies a higher degree of stability than one characterized by less expert retail investors who are more likely to panic and dispose of their holdings at almost any price.

The world 's most liquid international secondary market-A liquid secondary market in international holdings of shares is vital for international companies' future issuance and capital raising programs. The importance and vitality of international trading in London is underlined by the fact that there is more trading in international equities in London than in UK equities. An average of around US$20 billion worth of international equities are traded in London every day, far more than on any other major stock exchange.[30]

Worldwide visibility for international companies-The size, profile and reach of the London markets mean the international companies listed and traded in London gain global attention and coverage. The London Stock Exchange's trading and information systems for international equities include SEAQ International and the International Order Book. These systems are accessed by over 110,000 international investors worldwide. SEAQ International is a screen-based, quote-driven system that has established itself as a superb communication channel between the international companies and their investors –helping to increase trading in their shares in their home market, in London, and in other centers around the world. The listed on its markets include most of the major International Order Book is a fully automated order

[30] London Stock Exchange, (2002), "London: the first choice for international companies", London Stock Exchange plc, London EC2N IHP.

driven trading facility that increases the visibility of London's most liquid depositary receipts (DRs).[31]

Flexible and cost-effective capital raising-London is both an accessible market for international issuers and an attractive market for investors. The London Stock Exchange strives to make joining its markets as straightforward as possible for international issuers, as well as providing international investors with seamless access to their securities.

Listing on the London Stock Exchange is a flexible and cost-effective two stage process. First, the securities are admitted to the Official List by the UK Listing Authority (UKLA), which is part of the UK Financial Services Authority (FSA).Then they are admitted to trading by the London Stock Exchange. For all international companies, the London Stock Exchange is committed to providing a helpful, flexible and responsive admissions service based on clear standards. Additionally, the Exchange continually evolves its rules to meet the changing needs of international issuers.

High and well-respected standards of regulation-The standards of regulation in London are respected and admired worldwide. One of the main objectives of the London Stock Exchange is to run fair and orderly markets so that investors and companies have confidence in the integrity of the market. As a result, international companies find that joining the markets creates a higher level of confidence among their existing and potential investors, thus attracting vital international investment. The international companies also benefit from the fact that the London Listing Rules have been written with the needs of international issuers in mind.

A range of products to meet the capital raising requirements of different issuers-The London Stock Exchange offers international companies several ways to access the London capital markets. Issuers can list and trade their shares, depositary receipts or bonds on the London Stock Exchange. The Exchange has different regulatory approaches for each type of security, and

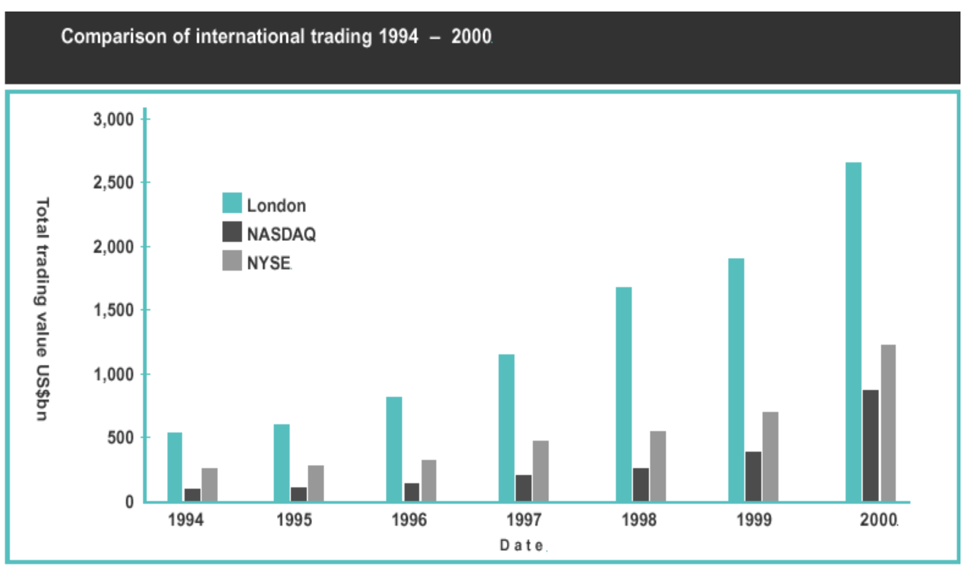
[31] London Stock Exchange, (2002-04-11), "Guide to Share Investment Services", London Stock Exchange plc, London EC2N IHP.

more details on each of these routes are given later in this chapter. The Exchange's listing fees for all three types of securities are competitive with other major markets around the world.

The ability to list securities in a range of products-With the London Stock Exchange's large-scale investment in its trading platforms, international companies can list in London in many currencies. With the investment in trading technology, London Stock Exchange can support trading in over eighty currencies, including major currencies such as the US dollar, Euro and Pound.

Despite the UK 's decision not to participate in the first phase of the European single currency, the Euro has rapidly established itself as the dominant trading currency on the London markets, accounting for some 40 per cent of total trading.[32] This confirms its position as the ideal gateway to Europe for international companies looking to tap the largest currency block outside the United States.

Table 4



Source: http://www.whitepage.co.uk/publications/pdfs/Japan02.pdf

[32] 2001 annual report of London Stock Exchange

From the Table 4, it can be seen that London Stock Exchange has much more international trading value per year than the trading values of the other two of the world's largest stock exchanges, New York Stock Exchange and Nasdaq Exchange. Obviously, it is a good gateway for international companies which seeking international investment.

4.2.2 Is it easy for Chinese Companies to Shift from Hong Kong to London?-An Integrated Comparison between Listing in London and Listing in Hong Kong

4.2.2.1 Introduction

Since most Chinese companies seeking overseas listing chose the Hong Kong Stock Exchange for capital raising before, all the preparation by the prospective companies was conducted to comply with the requirements and regulations of the Hong Kong Stock Exchange. Listing in Hong Kong has been researched widely and is well known by most prospective companies. In this thesis, information about listing on the Hong Kong Stock Exchange such as the operation of the stock exchange, listing requirement and listing procedure will not be described in detail.

But as to listing in London, the research concerned has not been conducted to any great extent and most companies lack related knowledge of it.

The following analysis is going to make an integrated comparison between listing on the London Stock Exchange and listing on the Hong Kong Stock Exchange to outline the possibility and feasibility for Chinese companies' going public in London if they made the former preparation in accordance with the demand of the Hong Kong Stock Exchange.

There are three markets operated in the London Stock Exchange which are designed to cater to the needs of a wide variety of companies and their investors. They are the main market, AIM market and landMARK market. The main listing and trading of the shares of international companies take place on the main market of London Stock Exchange. In this thesis only listing on the main market is researched.

There are two markets operated by the Hong Kong Stock Exchange, the main board and GEM(Growth Enterprise Market). GEM is a new market for the growth enterprises particularly those emerging ones, i.e. enterprises that have good business ideas and growth potential.[33] Similar to London, most listing and trading of shares in Hong Kong are concentrated on the stocks listed on the main board. In this thesis only the listing on main board is researched, in accordance with the listing on the main market of the London Stock Exchange.

The following table is intended to highlight the key comparisons between the Official List of London Stock Exchange and listing on the Main Board of the Hong Kong Stock Exchange for Chinese companies. These key comparisons are divided into three categories which are Market/Segment, Issuer and Continuing Obligations according to the similar table which was used to demonstrate the selecting a stock exchange in the publication, Entering the European Capital Market.[34] The comparisons among these categories were considered to be the key points when the company considers issuing shares in different stock exchanges according to the publication mentioned above. The first part is a comparison about the regulated markets, authorities and principle regulations. The second part is a comparison between the regulations for the issuer of the two stock exchanges including the conditions for listing and regulation of financial information. The second part is considered to be the most important part for the prospective companies to get listed on the two different stock exchanges because all the conditions for listing and financial requirements must be fulfilled by the issuers. They are the basic premises for prospective companies. Particularly, for those Chinese companies which planned to go public in Hong Kong previously, all the preparation they have made are to conform with the listing requirements of the Hong Kong Stock Exchange. If they want to shift targeting stock market from Hong Kong to another stock exchange they must fulfil the requirements of the new one. Whether it is easy to fulfil the listing requirements is also very important for

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[33] KPMG, (Oct 2001), "Obtaining a listing in Hong Kong", KPMG Hong Kong Office.
[34] PricewaterhouseCoopers, (March 2002), Entering the European Capital Market, London.

prospective companies as well as the advantages of the new international stock exchange itself. The third part is a comparison between the continuing obligations to be conformed by listed companies on the two stock exchanges.

These comparisons are considered to be the most important information of listing on different stock exchanges for prospective companies according to the similar comparison conducted among European main stock markets from the publication, Entering the European Capital Market, by PricewaterhouseCoopers.[35]

Table 5

London Stock **Exchange**[36] Official List(Main Market)	**Hong Kong Stock Exchange**[37] Main Board
Market/Segment	
Regulated markets/*segments*	
• Official List (Main Market)	• Main Board
Regulatory authorities	
• The UK Listing Authority ("UKLA") • London Stock Exchange	• The Stock Exchange of Hong Kong Ltd
Principle rules/regulation	
• Listing Rules of the UK Listing Authority • Admission and Disclosure Standards of the London Stock Exchange	• Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

[35] PricewaterhouseCoopers, (March 2002), "Entering the European Capital Market", London.
[36] All the datas of London Stock Exchange are from "A Practical Guide to Listing", 2002 London Stock Exchange plc, London EC2N 1HP.
[37] All the datas of Hong Kong Stock Exchange are from official webiste of Hong Kong Stock Exchange, www.hkex.com.hk/index.htm.

London Stock Exchange Official List (Main Market)	**Hong Kong Stock Exchange** Main Board
Issuer	
Conditions for listing	
• Minimum operating history: 3 years	• Must have a 3 years trading record
• Financial information	• Financial information
• Equity MV: at least £700,000	• Equity MV: at least HK$100 million
• Public float: at least 25%	• Public float: HK$50 million or at least 25% (but can be lowered to 10% if the issuer's market capitalisation exceeds HK$4 billion)
• Appointment of a Sponsor	• Appointment of a Sponsor
• Directors and senior managers must have sufficient knowledge and experience	• The company must have a sufficient management presence in Hong Kong.
• Be free of conflicts of interest	• There must be sufficient public interest in the issue
• Working capital for at least 12 months	• Both the company and its business must be regarded by the Exchange as being suitable for listing
• Controlling shareholder: 30%	
• Options/warrants: restricted to at least 20% of issued share capital	
• Financial accounting/reporting systems must be of a high quality	

London Stock Exchange Official List(Main Market)	**Hong Kong Stock Exchange** Main Board
Financial information (FI)	
• Field or published audited FI: 3 years • Age of last audited FI: 6 months • GAAP: UK, IAS or US • Form: accountants' report without qualification • Exemptions may appl	• Field or published audited FI: 3 years • GAAP: Hong Kong, IAS, UK or US

London Stock Exchange Official List(Main Market)	**Hong Kong Stock Exchange** Main Board
Continuing Obligations	
Principal continuing obligations	
• General obligation: all price sensitive information • Notification/prior shareholder approval of material transactions depending on the size and nature • Directors' dealings	• General obligation: all price sensitive information • A directors' report
Financial reporting *(Published and filed with Competent Authority)*	
• Preliminary announcement(120 days) • Audited annual accounts(6 months) • Unaudited semi-annual accounts (3 months)	• Preliminary announcement(120 days) • Audited annual accounts(6 months) • Unaudited semi-annual accounts (3 months)
Corporate governance	
• The Combined Code on Corporate Governance	• Company Ordinance
Takeovers and mergers	
• City Code on Takeovers and Mergers • Mandatory offer: at least 30%	• Hong Kong Code on Takeovers and Mergers • Mandatory offer: at least 30%

4.2.2.2 Comparison and Analysis between Listing on The Two Different Stock Exchanges

According to the comparative information of Table 5, an integrated analysis between listing on the London Stock Exchange and listing on the Hong Kong Stock Exchange can be conducted and some interesting findings are to be found.

The following part is to make a comparison and analysis between listing on the two stock exchanges.

4.2.2.2.1 Comparison of the Market/Segment

In this thesis, only listing on main market of London Stock Exchange is to be researched. Accordingly, listing on the main board of Hong Kong Stock Exchange is chosen for comparison to London.

As to the regulatory authorities of the two stock exchanges, in London they are the UK Listing Authority ("UKLA") and the London Stock Exchange. And in Hong Kong the matters concerned with Chinese company's listing are regulated and supervised by The Stock Exchange of Hong Kong Ltd and China Securities Regulatory Commission (CSRC).

The principle rules/regulation applied in London are Listing Rules of the UK Listing Authority and Admission and Disclosure Standards of the London Stock Exchange. In Hong Kong Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are the principle rules applied.

4.2.2.2.2 Comparison of the Matters Concerning Issuers

A. Conditions for Listing

When making the comparison on the conditions for listing, there are some similarities to be found between the two stock exchanges. These similarities between the two stock exchanges include:

Operating history record: Both London Stock Exchange and Hong Kong Stock Exchange require that the issuer should have an operating history record of over 3 years.

Equity Market Value: Newly listed shares on the main market of London Stock Exchange must have an expected initial market capitalisation of not less than £700,000. The figure for listing in Hong Kong should be no less than HK$100 million. The minimum equity market value required by the two stock exchanged are approximate to each other (1 GBP=12.14 HK$, £700,000 equalled HK$85 million)[38].

Public float: Both London and Hong Kong require that the minimum public float of shares should be 25% for listing on the main market of London and on the main board of Hong Kong respectively. But in Hong Kong, the minimum public float can be lowered to 10% if the issuer's market capitalisation exceeds HK$4 billion.

Appointment of a sponsor: Both exchanges require the companies appoint a sponsor if they want to issue shares on the London Stock Exchange or on the Hong Kong Stock Exchange.

The sponsor will usually be an investment bank, stockbroker, law firm or accountancy practice. The sponsor, which must meet certain qualifications, provides the link between the company and regulatory authorities and guides the company through the listing process.

Management: For a company to be listed in London, its directors and senior managers must have sufficient knowledge and experience. And if the company wants to issue shares on the Hong Kong Stock Exchange the company must have a sufficient management presence in Hong Kong. Both stock exchanges require that there must be sufficient public interest in the issue and it is free of conflicts of interest.

[38] http://hk.finance.yahoo.com/m3?u (2002-10-19)

There are also some differences between listing in London and listing in Hong Kong that the London Stock Exchange requires a minimum controlling shareholder of 30%. But in Hong Kong there is no such a regulation. Hong Kong Stock Exchange requires that the listed company should have a profit attributable to the shareholders no less than HK$20 million for the most recent financial year, but in London the requirement is different.

B. Financial Information-Accounting Policies

The accounting policy is the main part of the financial information for the issuers to pay attention to. It's very important for the prospective share issuers, especially for Chinese issuers. Because the accounting standards applied by Chinese companies comply with Chinese domestic accounting standards which differ greatly from the general international accounting standards such as IAS and US GAAP, Chinese company must modify its financial statements to match the GAAP accepted by the London Stock Exchange or the Hong Kong Stock Exchange when it's going to issue shares on the two stock exchanges.

Many stock exchanges accept International Financial Reporting Standards for cross-border listing purposes, although there are some important exceptions. International Accounting Standards, generated by the International Accounting Standards Board, is applied by most stock exchanges in the world including the Hong Kong Stock Exchange and the London Stock Exchange.

IAS Financial Statements are permitted for foreign listed companies both in Hong Kong and London. Besides the IAS some regional and other international accounting standards can also be applied on the Hong Kong Stock Exchange and the London Stock Exchange.

Accounting standards applied for international companies listed in Hong Kong and London stock exchanges are as follows:

Table 6

Accounting standards applied in Hong Kong and London[39]

United Kingdom	**London Stock Exchange** Domestic listed companies must follow UK GAAP. Foreign listed companies may follow IAS or US or UK GAAP. Foreign companies may follow other national GAAP, in which case a reconciliation to UK GAAP may be required.

Hong Kong	**Stock Exchange of Hong Kong** Foreign listed companies may follow either Hong Kong GAAP or IAS with a reconciliation to Hong Kong GAAP. The Exchange allows some foreign companies to use UK GAAP and US GAAP, on a case by case basis. If the Stock Exchange of Hong Kong is the company's secondary listing, rather than primary listing, the company may follow the accounting principles of the market of primary listing. Domestic companies must follow Hong Kong GAAP.

From the Table 6, it can be found that in general, the accounting standards applied in Hong Kong and London are similar. Both the companies listed in Kong Hong and companies listed in London can apply IAS, UK GAAP and US GAAP. The companies that comply with the Hong Kong accounting standards will have little difficulty in matching the accounting requirements of London Stock Exchange.

[39] Source from official webiste of International Accounting Standards Board, www.iasc.org.uk/cmt/.

4.2.2.2.3 Continuing Obligations

Principal continuing obligations: When it comes to the continuing obligations, the two stock exchanges have the same general obligation, which is that all price sensitive information should be provided to the investors.

Financial reporting: The financial reporting requirements of the two stock exchanges are almost the same. A preliminary announcement of 120 days, audited annual accounts within 6 months and unaudited semi-annual accounts of 3 months should be provided by the listed companies. All the financial reporting should comply with the GAAP accepted by the two stock exchanges respectively.

Corporate governance: All companies listed on London Stock Exchange must maintain certain accounting records and prepare annual financial statements in accordance with the requirements of The Combined Code on Corporate Governance. In Hong Kong, all the listing companies must do that in accordance with the requirements of Hong Kong Companies Ordinance.

Takeovers and mergers: In London, the listed company should conform to City Code on Takeovers and Mergers if any merger or takeover is going to happen. And the Hong Kong Code on Takeovers and Mergers must be conformed by the companies listed on Hong Kong Stock Exchange. But both stock exchanges have the same requirements of a minimum mandatory offer of 30%.

4.2.3 Summary

From the integrated comparison above between listing on the main market of the London Stock Exchange, and listing on the main board of the Hong Kong Stock Exchange, it could be found that there are many similarities in listing matters concerned between the two stock exchanges. For those Chinese companies having interest in going public on the main market of London, they can use the knowledge of listing on the main board of the Hong Kong Stock Exchange as reference. If a company fulfils the listing requirements of the

Hong Kong Stock Exchange, it is easy for it to meet the listing requirements of the London Stock Exchange. Not only with the advantages of itself but also with the easiness of shifting from Hong Kong Stock Exchange, London Stock Exchange can be taken as a considerable stock exchange for prospective Chinese companies to raise capital.

Furthermore, not only the London Stock Exchange but also the Hong Kong Stock Exchange has a second market. The second market of London Stock Exchange is AIM(Alternative Investment Market). AIM is an international market especially for young and smaller growing companies. Similarly, in Hong Kong, besides the main board market there is also a secondly market, GEM. GEM is a new market for the growth enterprises which do not fulfil the listing requirements of the Main Board. Both of the two international stock exchanges provide a range of markets suited to different kinds of companies, at different stages of development.

The reason why listing in London is similar to listing in Hong Kong might be explained by the special business and politics relationship between Hong Kong and United Kingdom. Due to the historical reasons, Hong Kong had been the colony of the UK and governed by the UK government for over one hundred years. It can be said that Hong Kong's economy is developed in accordance with the UK Model.

4.3 Other Important Issues to Be Considered when Seeking Going Public in London

If a Chinese company is going to issue shares on the London Stock Exchange, some other important issues should be considered as well as the fulfilment of listing requirements. The following part is to show other important issues to be considered by prospective Chinese companies when seeking getting listed on the London Stock Exchange. Similar to the comparison conducted above, the following analysis will still be conducted on a basis of comparison to the Hong Kong Stock Exchange.

4.3.1 Cost of Listing

Listing can give many benefits to a company, but it is not cheap. Generally speaking, the larger the amount raised in a new issue, the lower the cost will be as a percentage of the amount raised.

The costs of obtaining a listing generally comprise[40]:

- Sponsor's fee
- Listing fee payable to the exchange
- Underwriter's fee
- Reporting accountants' fee
- Legal advisers' fee
- Valuer's fee
- Translation fee
- Advertising and public relations fee
- Fee of printing of prospectus and share certificates
- Share registration fee
- Trading fee
- Transaction levy fee
- Miscellanneous expense

A. The Fixed Listing Costs

Some costs of listing are relatively fixed such as listing fee payable to the exchange, legal and auditing fees. The listing fee payable to the exchange is determined by which stock exchange the company will choose to issue shares. Each stock exchange has its own standards.

To Hong Kong Stock Exchange

The amount of the fee payable to Hong Kong Stock Exchange by the companies which want to issue shares depends on the monetary value of the shares to be listed. It ranges from HK$150,000 if the value of shares is up to

[40] KPMG, (Oct 2001), "Obtaining a listing in Hong Kong", KPMG Hong Kong Office.

HK$100 million to HK$650,000 if it is HK$5 billion or more for listing on the Main Board.[41]

To London Stock Exchange

Issuers of equity securities incorporated outside the United Kingdom must pay a fee for admission of their securities to trading on the London Stock Exchange. The admission fee is determined as the following table:

- Locate the market capitalization band of the securities to be admitted in column (a).
- Multiply any additional amount over the 'greater than' figure by the corresponding figure in column (b).
- Add the result of this calculation to the maximum fee in the previous market capitalization band in column (c).[42]

Table 7

(a) Market capitalisation (£m) *greater than*	*less than or equal to*	(b) Increment per million (£)	(c) Maximum increment (£)	Maximum fee (£)
	5	Fixed fee	–	2,500
5	10	500	2,500	5,000
10	50	250	10,000	15,000
50	250	125	25,000	40,000
250	500	55	13,750	53,750
500	1,000	25	12,500	66,250
1,000	2,000	15	15,000	81,250
£2,000m		7.5	43,750	125,000

Source: http://www.londonstockexchange.com/cmsattach/501.pdf

Other fixed fees such as legal and auditing fees are dependent on what kind of providers the company will choose and the local price of such kinds of services.

[41] KPMG, (Oct 2001), "Obtaining a listing in Hong Kong", KPMG Hong Kong Office.

[42] London Stock Exchange, (April 2002), "Admission and annual fees", London Stock Exchange plc, London EC2N 1HP.

B. Unfixed Costs

Besides the relatively fixed costs of listing, there are some unfixed costs, which may influence company's decision that which stock market to issue shares. Certain costs of listing such as legal and auditing fees are relatively fixed, whereas others, the underwriting commission notably, are a direct function of the amount raised by the new issue.

The unfixed costs will be quite different in different stock markets. For example, the fees of advertising and public relations fee must have distinctions between in London and Hong Kong for a prospective Chinese company. Generally, as Hong Kong is a special regional district of China, it's easier for the investors of the Hong Kong Stock Exchange to have more information and understanding of the Chinese company than for the investors from London Stock Exchange. And probably, it's easier for Hong Kong's investors to understand its business and accept the Chinese company than the investors from London. So for the Chinese company, when it carries out widespread promotional activities which can require very high expenditure, it will perhaps spend more money on advertising and public relations in London than in Hong Kong, and the costs of pursuing listing will increase accordingly.

How to control the costs of listing is an important issue for the Chinese companies seeking going public on the London Stock Exchange to do more researches.

4.3.2 Conversion from Chinese GAAP to International Accounting Criterions

All the financial statements provided by companies listed on the London Stock Exchange must follow the general accepted accounting principles regulated by London Stock Exchange. The GAAP accepted in London now includes: UK GAAP, IAS (International Accounting Standards) or US GAAP.

As far as Chinese company is concerned, China's GAAP, which is quite different from the ordinary international accounting criterions, should be followed by all China's companies within China. But if a Chinese company is going to issue shares on the London Stock Exchange, its accounting system must be modified and another set of financial statement should be prepared in accordance with the GAAP accepted in London.

For those companies seeking listed on Hong Kong Stock Exchange originally, they will find little barrier to modify its accounting system to follow the GAAP accepted by the London Stock Exchange. In order to go public in Hong Kong, they have conducted the modification to comply with the GAAP accepted by the Hong Kong Stock Exchange and related financial statements have been prepared already. From the comparison between the GAAPs accepted in London and Hong Kong, it has been found that the accounting requirements of the two stock exchanges are almost the same. So for those companies familiar with the Hong Kong Stock Exchange's accounting requirements, it is easy for them to provide the financial statements in accordance with the ones of the London Stock Exchange.

As to which international GAAP is to be applied by Chinese companies, IAS is the main one. In general, International Accounting Standards will be applied by the Chinese company and a set of financial statements which follow IAS will be provided. Many stock exchanges in the world accept International Financial Reporting Standards for cross-border listing purpose. International Accounting Standards, generated by the International Accounting Standards Boards, is applied by most stock exchanges in the world including London and Hong Kong.

4.4 Summary of the Chapter

In the first part of this chapter the general information of the London Stock Exchange has been demonstrated including the introduction, listing requirements and process. In the second part the advantages of the London Stock Exchange are given, and an integrated comparison between issuing shares in Hong Kong and London was made to illustrate the issue of whether London is a considered stock market for prospective Chinese companies, especially for those that previously planned to issue shares on the Hong Kong Stock Exchange. From the comparison between the listing on the two stock exchanges it can be found that listing in London and listing in Hong Kong have many similarities with each other, mainly in the fulfilment of the listing requirements. The third part of this chapter has discussed some other important issues, costs of listing and conversion from Chinese GAAP to international accounting criterions, to be considered when Chinese companies are going to issue shares on the London Stock Exchange.

5 Conclusion

5.1 General Conclusions

This thesis has tried to describe the basic listing requirements and procedures of London Stock Exchange. It has also analysed and outlined the possibility and feasibility of Chinese company going public in London by trying to answer the research issues, which are *whether the London Stock Exchange is a considered capital market for prospective Chinese companies, how to issue shares in London and what kind of issues should be considered.*

From the study of this thesis, it can be said that the London Stock Exchange can be taken as a considerable capital market for Chinese companies seeking overseas listing for international capital raising. Moreover, on the basis of a comparison of Chinese company's listing on Hong Kong Stock Exchange, which is the current main international capital market for Chinese companies, more opportunities and feasibility for Chinese enterprises to be listed on London Stock Exchange could be found from this thesis. For those Chinese companies familiar with the listing matters of the Hong Kong Stock Exchange, they will have less difficulties transferring from Hong Kong to London and Hong Kong can be taken as an ideal reference for them.

The principal conclusion related to the research is that London is deemed as a considerable international capital market for those Chinese companies seeking overseas listing. But the London Stock Exchange was neglected and has not been researched and attached importance to enough. Today, there are only 6 Chinese companies listed on London Stock Exchange. The listing requirements, listing process and advantages of the London Stock Exchange are not well acquainted by most Chinese companies.[43]

From the practical study in the thesis, in particular with a comparison to the listing on the Hong Kong Stock Exchange, the thesis has given the necessary

[43] Gu Huizhong, (2002), "International Stock Exchanges Promoted in China to Attract More China's Companies for Overseas Listing", Beijing: "China Securities", Sept 20.

information of listing on the London Stock Exchange to Chinese companies together with related analysis for the way and feasibilities to go public for those prospective companies. After the research in this thesis it can be found that London has many advantages and could provide a lot of opportunities for those Chinese companies seeking international capital. Especially, the listing in London having some similarities to listing in Hong Kong which is more well known by Chinese companies could help China's companies to find an easy way to enter the larger international capital market. This thesis is expected to provide another avenue for China's companies' seeking overseas listing.

But this thesis is only concentrated on a research of the London Stock Exchange. As it was explained in the part of Research Issue, *the main reason why London is chosen as the research object is that the thesis is conducted in Europe and the thesis writer wants to do research that has a relationship between China and Europe purposely. And the London Stock Exchange, being the financial center and largest capital market in Europe, can be taken as a representative of Europe.*

5.2 Suggestions for Further Research

The topic about Chinese's companies going public abroad is discussed ardently today. With the continuing rapid development of China's economy from 20 years ago, more and more of Chinese companies will enter the international market and will seek more international capital for further business developing. Going public abroad provides an appropriate method for them.

Besides the Hong Kong Stock Exchange, there are some other international stock exchanges to be chosen to issue shares for Chinese companies such as New York Stock Exchange, Nasdaq Stock Exchange, Tokyo Stock Exchange, London Stock Exchange, Singapore Stock Exchange and etc. Each one of these stock exchanges can be considered as an option for prospective Chinese companies. But, due to the tremendous workload and limitation, it is too difficult for the thesis writer to study all the optional stock exchanges. This thesis only focused on Chinese company's listing on the London Stock Exchange.

Due to the difficulty accessing further information and intensive workload, this thesis has to been done in an uncomplicated way. Going public internationally, particularly in London, is still a new topic for Chinese companies and more research and practice need be conducted. More related research about overseas listing and IPOs on various international stock exchanges including London and other international capital markets are expected to be carried on in the future.

Are those stock exchanges good options for Chinese companies for capital raising? What problems will they meet? How to issue shares in those stock exchanges?…

This thesis will only explore the prospect of Chinese companies' overseas listing on London Stock Exchange. It has hopefully given an insight into the listing on the London Stock Exchange in a general way and is expected to be valuable for those prospective companies and related groups who have interest in this topic. Any idea and solution brought from this thesis will make it meaningful.

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