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The 2023 policy address is about to be released, and various parties in Hong Kong have suggestions on "how to activate the capital market"

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Economic Observer Network Reporter Lao Yingying Recently, in the context of the upcoming release of Hong Kong SAR Chief Executive Lee Ka-chiu's 2023 policy address, topics such as consolidating Hong Kong's status as an international financial center, attracting investment, and revitalizing the property market have become topics of great concern in the economic field.

From September 1 to 12, CPA Australia conducted a survey on expectations and opinions on Hong Kong's policy address, in which a total of 208 Hong Kong accounting and financial professionals participated. On October 10, the Association announced relevant survey results: more than 80% of the respondents believed that the government should prioritize allocating resources to consolidate Hong Kong's status as an international financial center, and 70% of the respondents suggested that the government maintain low tax rates and a simple tax system to consolidate Hong Kong. status as an international financial center.

Since the beginning of this year, the Hong Kong stock market has been facing greater pressure. Not only has the transaction volume been sluggish, but both the number and the amount of funds raised in the IPO market in the first three quarters have also declined to varying degrees compared to the first three quarters of last year. Especially for the listing of SPACs launched in 2022 , there are no companies that have submitted or successfully listed this year. In addition, for the “18C” (new special technology company listing mechanism) launched in March this year , only one company has submitted listing application materials.

What happened to SPACs?

Wang Qianwen, chairman of the SPAC Committee of the Hong Kong Stock Analysts Association, said at the "How to Activate Hong Kong to Become the SPAC Center of Asia" brainstorming meeting held at the end of August that SPAC's performance has been disappointing for more than a year since its launch. As far as its current situation is concerned, it can be described as a deadlock. It is not an exaggeration to say that if there is no way to activate SPAC, such as reforming SPAC listing approval, Hong Kong's SPAC will declare failure.

In January 2022, the Hong Kong Stock Exchange launched the SPAC listing mechanism. The full Chinese name of SPAC is "Special Purpose Acquisition Company". It is a shell company that can be listed with zero business , and then use the funds raised from the listing to acquire the business of a third party within a time limit, thus becoming a listed company with business. After the SPAC is listed, the sponsors have two years to find the target company, negotiate the terms of the merger, find and obtain investment commitments from independent third-party investors, and then have one more year to complete the merger. During this period, the target company must undergo due diligence by the sponsor, the intermediary drafts the listing documents, and submits them to the Hong Kong regulatory authorities for approval. Finally, the merger and acquisition is completed after the Hong Kong regulatory authorities agree and the shareholders' resolution is passed.

According to public information, there are currently 5 SPACs that have been successfully listed on the Hong Kong stock market, namely Aquila Acq -Z (07836.HK), Interra Acq -Z (07801.HK), VISION DEAL-Z (07827.HK), Huide Acquisition -Z (07841.HK) and Techstaracq -Z (07855.HK). In addition to the five companies that have been listed, there are another nine companies that are in the process of submitting applications . But since September last year, no new SPAC listing applications have appeared. Judging from the five SPACs currently listed, the trading volume has been sluggish for a long time. Only Aquila Acq -Z has recently traded about HK$100,000, and the rest have no trading volume.

Drew Bernstein, co-founder and co-chairman of Marcum Asia Accounting Firm, told a reporter from the Economic Observer Network that Hong Kong has formulated a series of rules aimed at protecting investors in the SPAC design. For now, these rules may make it more difficult to complete a deal. First, restricting subscription and trading to institutional investors greatly limits potential transaction liquidity; second, setting the minimum size at US$125 million, while in the current market, the size of many IPOs is below US$100 million; third, it is required to obtain PIPE (private equity investment in listed company shares) to verify the valuation of De-SPAC, but unfortunately, as interest rates rise, the PIPE market has become very challenging.

"In the long term, SPACs may be an attractive option for Chinese companies that want to go public but are not in the industries most likely to conduct A-share IPOs quickly," said Bernstein.

Since the launch of the SPAC system in 2022, only one SPAC has announced a merger and acquisition transaction. Aquila Acq -Z announced on August 31 that it had signed a business merger agreement with Zhaogang.com. If the transaction is successfully completed, Zhaogang.com will submit an application for listing in Hong Kong under the De-SPAC (Special Purpose Acquisition Company Merger and Listing) model. This is the first merger and acquisition transaction since the Hong Kong Stock Exchange launched the SPAC listing model.

Drew Bernstein told the Economic Observer Network reporter that their experience in the United States is that it is relatively easy to complete a SPAC IPO. That's because if investors don't like the deal, they can simply redeem their shares for cash. Most private companies don't go public for the sake of going public, they hope to raise a lot of money. Whether there will be more mergers and acquisitions in Hong Kong SPAC will largely depend on how the first batch of Hong Kong De-SPACs perform. If investors can make money and the company finally has monetary cash on the balance sheet, there will be many interested companies.

On October 10, Lui Zhihong, President of the Greater China Branch of CPA Australia, accepted a question from a reporter from the Economic Observer Network at the media conference on "Recommendations for the Hong Kong Policy Address" and said that from the perspective of investment cost return, the interest rate is on the high side. Under such circumstances, investors may consider putting money in the bank to invest in time deposits, because time deposits have an interest income of 4%-5%, and they will not be so eager to start M&A projects, which will not perform well in the stock market. Great, when everyone is on the sidelines, the speed of SPAC mergers and acquisitions will naturally slow down.

Wang Qianwen put forward several suggestions on Hong Kong's SPAC listing rules: further clarify the qualification requirements for SPAC sponsors in practice ; allow ordinary investors to participate in subscription and transactions; in the context of only professional investors participating in subscription and transactions, initiators should be allowed People participate in voting on M&A transactions, etc.

How to activate the market

Not only is SPAC listed, this year is also a sluggish year for the Hong Kong IPO market. According to KPMG's latest "Review of Mainland China and Hong Kong IPO Markets in the Third Quarter of 2023" report published on October 9, affected by macroeconomic and geopolitical uncertainties, global IPO activities continued to be weak in the third quarter of 2023, and Hong Kong's global The IPO ranking also fell to eighth place due to continued sluggish performance in the third quarter.

Data show that the Hong Kong IPO market recorded 44 transactions in the first three quarters, a 15% decrease compared with the first three quarters of 2022; the amount of funds raised was HK$24.6 billion, a 65% decrease year-on-year. In the third quarter, only 13 companies were listed, raising only HK$6.8 billion, and the largest IPO raised only HK$5.31 billion.

As for the Hong Kong Stock Exchange's announcement in March this year that a new chapter for specialized technology companies ("18C") was added to the Main Board Listing Rules, currently only one company has submitted an application under this category.

In this regard, a Hong Kong investment banker told a reporter from the Economic Observer Network that this is mainly due to two reasons: On the one hand, although the new regulations have lowered the minimum market value requirements for commercialized companies and uncommercialized companies, the valuation is still not high. Low, not all ordinary companies can be listed casually; on the other hand, the market environment is not good and there is a lack of foreign capital. Companies consider that even if they apply for listing, they may not be able to issue it in the end, so they have been holding a wait-and-see attitude.

In response to the downturn in Hong Kong stock liquidity and the IPO market, the Hong Kong government has recently established a task force to promote stock market liquidity to comprehensively examine the factors affecting stock market liquidity. The Hong Kong Exchange also recently issued a consultation document on GEM reform, proposing measures to enhance the attractiveness of GEM to small and medium-sized enterprises with high growth potential.

Lui Zhihong told reporters that considering the huge pressure faced by the stock market this year, it is recommended that the government implement reforms to improve market liquidity and attract investment, including reducing stamp duties on stock transactions. One of the options that can be considered is to lower Hong Kong's stock stamp duty from the current 0.26% to only 0.05% for sellers in line with the mainland to reduce the transaction costs of institutions.

The KPMG report pointed out that due to continued high interest rates and slowing economic growth, the performance of the Hong Kong IPO market is expected to still face challenges in the short term. Lu Zhihong believes that if the interest rate hike cycle ends at the end of the year, the uncertainty in the stock market may be reduced, thereby attracting investors to return to the stock market.

Drew Berstein also told reporters that Hong Kong is still an important IPO choice for companies in Greater China that hope to enter the global capital market through the convenience of listing. Currently, there are concerns that the downturn in the real estate industry may have adverse effects on finance and consumer confidence, and fund managers in New York and London are even worried about waking up to find that another domino has fallen. Investors often need time to ensure the economy recovers before returning to the market, and typically interest in new equity offerings will increase after investors have experienced a quarter or two of positive returns from existing holdings.

At the same time, amid the “shortage” of funds in Europe and the United States, the Hong Kong government is also seeking more overseas funds from other channels. On October 3, Hong Kong Secretary for Financial Services and the Treasury Henry Hui Ching-yu published a blog saying that as the largest offshore RMB center, Hong Kong has sufficient capital pools, a rich product ecosystem and diverse risk management tools, and can definitely take advantage of it. Dongfeng plays a role in serving the RMB investment and financing needs of the Middle East. For example, taking advantage of the market trend of downward RMB interest rates, countries in the Middle East can explore the issuance of RMB-denominated green, blue or social bonds in Hong Kong, and introduce more funds through the Hong Kong market. International capital interested in green and sustainable finance.