



**THE REASONS FOR APPEALING CHINESE COMPANIES
LISTING IN AMERICA AND HONG KONG-IPO EVENT
AFTER 2008 GLOBAL ECONOMIC CRISIS**

BY

MISS YINA QIU

**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF SCIENCE
PROGRAM IN FINANCE (INTERNATIONAL PROGRAM)
FACULTY OF COMMERCE AND ACCOUNTANCY
THAMMASAT UNIVERSITY
ACADEMIC YEAR 2018
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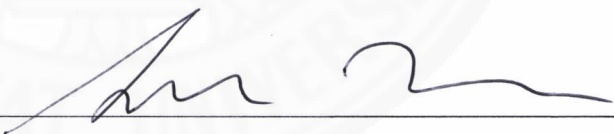
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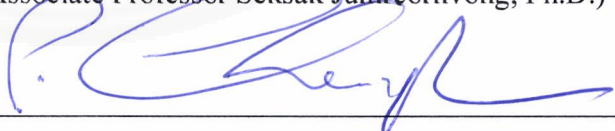
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ABSTRACT

After year 2008 global financial crisis and Xi Jinping claimed the President of PRC, China started the economic reform and technology. This paper collects Chinese IPO companies from year 2013 to 2018 in domestic markets, Stock Exchange of Hong Kong, and American market. Bigger companies with high profitability tend to go abroad to list rather than staying at domestic market. The chance of listing in America market are more significant for fast-growing company who needs capital to support expansion and farther development compared to the companies which choose to stay in domestic or Hong Kong market. Company which list in Hong Kong and China are both having similar growth rate due to China remarkable development in recent 10 years and both markets opened stock connection link, making the growth rate sharing the similarity. But High-Tech companies still prefer to list in Hong Kong and America because of the foreign markets' advancement in technology and profession in high-tech industry. Comparing the Hong Kong and American IPO, it is also found that risky Chinese companies prefer to choose Hong Kong over the America market, but the companies with sales growth are tend to list in America market by ADRs.

Keywords: ADR, IPOs, foreign listing, high-tech, China, Economy, Corporate finance, Hong Kong, America

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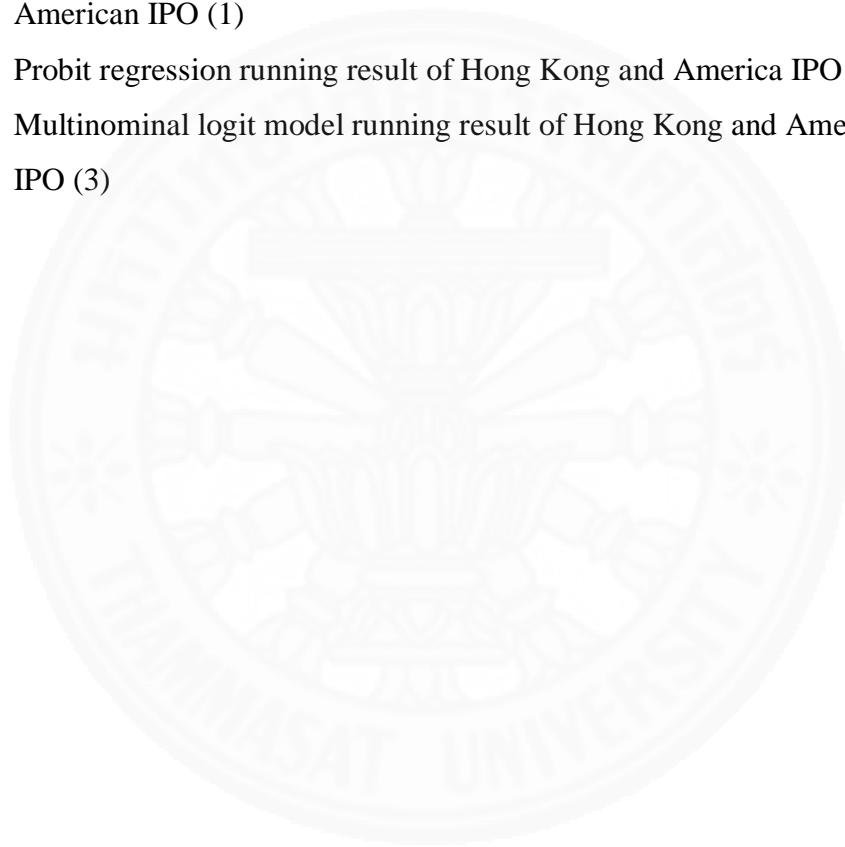
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CHAPTER 1

INTRODUCTION

1.1 Background brief

Global financial crisis happened around year 2007 to 2008 which evoked one of the huge financial tsunamis in the history. It was regarded as the worst one after 1930s' Great Depression. So far, the financial crisis has been past about 10 years and there were many companies going to the dead hall but also many survived in the economic aftermath and went to the exchange and rang the bell. Since 1990s, Chinese stock market has been developing over near 30 years. With the opening of Chinese economies and the financial development, Chinese stock markets (Shanghai Stock Exchange, Shenzhen Stock Exchange) get more completed and escalated with the fullness of law system and compliance. It was also achieved connection channel between the Hongkong stock market and mainland stock markets. Chinese economies change its developing direction especially around 2008 to 2010 after Chinese economies battled the world financial crisis and successfully holding the 2008 Olympic Games. Technology and communication became the topic of the economy. Labor intensive style gradually transformed to the technological-cored developing route. Many Chinese entrepreneurs grew up and pioneered the new trends in the world economy stage. A growing number of unicorn companies which has market capitalization over one billion dollars went public in Nasdaq and NYSE. The world had even been consecutively amazed by the huge and unbelievable IPO performance on their public initial day. Therefore, in this paper, Chinese companies will be studied to see where the public companies would like to go to and the reasons behind for those companies decide to list if they choose the overseas.

Chinese domestic stock markets have two; one is Shanghai Stock Market and another one is Shenzhen Stock Market where have averagely around 100 IPOs yearly in recent years. The successful public number, however, is still far behind the demands comparing the queue amounts up over 1000 companies every year. Many of the awaiting companies are working related to the industries about newly technology,

big data, E-commerce, AI, clouds-computing, medical health and pharmaceutical manufacturing, hardware, logistics, entertainment and media, corporate services, fintech, education, tools software, etc.. Shanghai Stock Market has main-board market; but Shenzhen Stock Market is formed by main-board, SME board (Small and Medium Enterprise Board) and ChiNext (especially for technological companies). Three boards have different requirements for each one, such as share capital, profitability, financial status, board numbers. The main board has the most demanding regulations. The main regulations listed as the follow: (1) the applying companies need to be approved by CSRC and openly issued the shares; (2) the share capital should be more than 50,000,000 RMB and (3) the initial issuing shares reach more than 25% of total shares (if the total share capital exceeds 0.4 billion RMB, the proportion of IPO should be above 10%); (4) no significant illegal actions for company in recent three years; (5) no fake recording in financial and accounting statements. The requirements for ChiNext is a little bit different from another two. The required minimum total shares capital is 30,000,000 RMB and the number of shareholders required is more than 200 people. After year 2008, a huge number of entrepreneurs work in the field of technology which needs rounds of capital inflow to support product developments. Venture capitals participated to join with the start-ups and IPOs become the best receding methods for them to get high return.

The domestic IPOs indeed can bring relatively high profit, improve companies' reputation and credits. But the strict and cumbersome listing requirements in domestic markets also limit their financing accessibility. Chinese corporate law and governance regulations lock up trading periods for shareholder in the first year, so big uncertainty exists for investors, companies and institutions. Additionally, the slow process of going public, averagely taking about five years, make those entrepreneurs who need lots of capital turn to the overseas for marketing.

1.2 Chinese economic reform

Deng Xiaoping, one of Chinese great leaders pushed the innovated reforms that have changed China into the world's second largest economy.

The economic reform started from the rural areas with the household responsibility system and township and village enterprises. Back then, the experimental reforms, which undertook in confined areas and regions, smartly circumvent the political resistance; majority of members of Party still suspected the market economy. With the success of experimental reforms, it gradually spread to the national degree. The local provinces and governments received favored tax and capital aids from the central governments to support the decentralization of authority; each areas and regions started the fiscal reforms-de facto tax contracting system, having high revenue retention rates for local development. The most successful areas are like Guangdong, Sichuan, Wuhan, etc. Among those reform policies, the very effective one was the Township and Village Enterprise (TVE). This form of enterprises was out of the planned economy, but owned and managed by the government to some certain degree. After the private ownership became more acceptable, most of the TVEs were taken by private and foreign-invested companies to increase the economic growth and create more jobs. TVEs gradually turned into private companies.

According to Bert Hofman, World Bank's country director for China, Mongolia and Korea in the East Asia and Pacific Region, China's reform can be distinguished in three phases: Market Seeking reforms (1978-1993); market building reforms(1993-2003); market enhancing reforms(2003-current). The first stage was a genuine search for what the right Chinese economic institutions and elements of a market economy would work in China, and which one would be politically acceptable at the time-household responsibility system, dual pricing, TVEs, and special economic zones for foreign investment. During the period between 1980 and 1984 China established special economic zones (SEZs) in Shantou, Shenzhen, Zhuhai in Guangdong Province and Xiamen in Fujian province and the entire island province of Hainan a special economic zone. For the second stage, the central committee made decisions and policies to build the institutions for a market-driven economy. These included a modern tax system, enterprise reforms and a financial system that separated

policy banks from commercial banking. 1990s Shanghai Stock Market reopened and state enterprises reform embarked. China entered in WTO, fronted more competitions but also opportunities. Chinese economy leveled up to involve into the world. In 1999, government also consolidated all the industry-related ministries into the ministry of Commerce and the Ministry of Industry and Information Technology. Currently, this stage can be regarded as the years when China greatly increase the market economy. Techno-industrial policy was retaken after Zhu Rongji left office, and National Development and Reform Commission was merged to develop the social safety net and the industrial policy. In 2006, the Medium-term strategy for science and technology was launched along with 16 mega projects, intensively develop Chinese market economy and self-researching technology.

China, the state council issued the guidelines on national medium and long term program for science and technology development (2006-2020). The progress of science and technology will contribute 60 percent or above to the country's development. Meanwhile, the country's reliance on foreign technology will decline to 30 percent or below. 11 major sectors will be given priority to technological development, such as energy and water resources, mining resources, environment, agriculture, manufacturing, communications and transport, information industry and modern service industries, population and health, urbanization and urban development, public security, and national defense. Apart from that, by 2020, china intends to developed a number of frontier technologies in sectors such as biology, information industry, materials technologies and advanced manufacturing technology. China will focus its energy research on the economical, efficient and clean use of energy and the exploration of new energy resources. The comprehensive exploration of seas and oceans, laser technology, aerospace technology is also on the call for the next 15 years. Meanwhile, protein study of life science, control of quanta, Nano technology are also in the range of technology innovation and development. Enterprises and companies are encouraged to set up research & development institutions to develop along with the government, sharing the state's R&D tasks.

1.3 Current Chinese enterprises

Up to year 2018, there are more Chinese companies battled into the most respected and renowned rankings of company size. In the most famous Fortune Global 500 largest companies ranked by revenues, a record of 120 Chinese companies made the list, and 22 of which are in the top 100, only six places fewer than the US. Overall, the top 10 countries with the most global 500 companies are the US (126), China (120), Japan(52), Germany(32),France(28), UK(21), South Korea(16), Netherlands (15), Switzerland(14) and Canada(12).

A study conducted by consultancy firm Brandz studied the 100 most valuable brands in the world and within that shows that these 20 brands have grown by more than 40% in 2018. A third of 20 companies included in the study are all from China. CPIC (insurance), reached to\$6,134 million for the brand value in 2018 from \$4,247 million in 2017, increasing by 44%. ICBC (Banking) achieved value of \$ 45,853 million in 2018, increasing by 45% compared to 2017; Ping An(Insurance) got to \$26,141 million in 2018 , increasing by 51%. Tencent(Internet service), Maotai (alcohol), Group Alibaba(E-commerce), JD.com(E-commerce) are also on the top of the list.

In China, technology companies have fast growing over those years after Chinese government issuing the corresponding policies. In year 2018, Fortune China released the ranking of China's most admired companies. The top 10 most admired companies in 2018 are Tencent(internet, internet service), Sany Heavy Industry Co Ltd(manufacturing), CRRC corporation Limited(manufacturing), SF Express(transportation, logistics), Kweichow Moutai Co Ltd(food, beverage), Alibaba Group(internet, internet service), Xiaomi Corp(electronics, electrical equipment), Haier Group(Electronics, electrical equipment), Zhuhai Glee Group Co Ltd(electronics, electrical equipment), Huawei Investment and Holding Co Ltd(telecommunications, communications and communication equipment).Among those top ten admired companies, Tencent, CRRC Corporation Limited, Alibaba Group, Xiaomi Corp chose to list in America and Hongkong financial market. The others chose the domestic stock markets which are in Shanghai and Shenzhen respectively

Table 1.1 Chinese IPO numbers from 2008 to 2018 in different destinations (1)

IPO NUMBERS FROM YEAR 2008 TO YEAR 2018												
STOCK MARKETS	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TOTAL
SHANGHAI	2	4	23	37	18	1	42	84	89	183	34	517
SHENZHEN	75	88	320	241	125	1	85	129	109	197	27	1397
HONG KONG	29	56	79	75	57	99	107	116	111	155	161	1045
NYSE	32	37	79	75	101	122	127	77	55	89	72	866
NASDAQ	26	36	61	64	75	112	177	135	100	143	154	1083
TOTAL	162	217	539	455	358	334	496	457	375	584	414	4391

1.4 Overview of Chinese stock market

Chinese stock market can date back to 1860s when the first stock exchange was established in Shanghai. But due to the historical revolution of Chinese Communists, it closed for 41 years and reopened in 1990. China currently has two stock exchanges in Shanghai and Shenzhen respectively. Because China operates a social economy, the socialism characteristics heavily reflected in corporate structure and stock market back then. State-owned companies were originated and the companies are mandated to have three separate classes of ownership shares: (1) State-owned shares, (2) institutional shares and (3) individual shares. The first two types don't trade on the second exchange markets. The individual shares can be categorized into three types. The first type is A shares which only allows domestic trading by Chinese citizens; the second type is B shares which can be sold to foreigners and traded by foreign currencies; the third one is H shares which list on Hong Kong and foreign stock exchange.

Most of the large, state-owned companies choose Shanghai Stock Exchange (SSE) and only one main-board can be traded there. The Shenzhen Stock Exchange is a smaller Exchange, but many small and medium companies and entrepreneurs choose there to get the financing. However, there are three different boards given to be chosen to list on Shenzhen Stock Exchange: (1) Main board, (2) SME board and (3) ChiNext Board. Compared to Shanghai Stock Exchange, the companies listed on Shenzhen show more innovative and profitable traits.

1.5 Chinese companies listing in U.S.A

Even though the political issues happened between China and America throughout the years, it didn't stop Chinese companies from flocking into U.S.A to list on stock exchange there.

American capital market is much more matured and the total share capital only in New York almost accounts for half of the World. NYSE, NASDAQ are the most famous stock exchange in the world.

For foreign companies, IPOs by ADRs is the best ideal method to help listing in American markets. Private equity fund and reverse merger are the other choices to approach American market. According to the table, there is an increasing number of Chinese ADRs published in American market. Ritter(2013) founds that from year 2004 to year 2010, 93% of all Chinese companies which choose to go public in America via ADRs. But since the difference in language, culture, demography and law between China and America, the landing of Chinese companies would encounter more hurdles. Besides, American investors and institutional investors may lack relative profiles of those "stranger" Chinese companies. However, with the increasing number of Chinese landing on American Stock market, more American investors have better confidence to those Chinese ADRs and tend to invest in them.

1.6 Chinese companies listing in Hongkong

Hongkong Exchanges and Clearing Limited (HKEx) is a stock market and derivative market, much more developed compared to Chinese late-growing domestic stock market because of the colony by the United Kingdom until 1997. In November 2014, Chinese government announced the connect program that Shanghai Stock Exchange and Hongkong Stock Exchange can be linked. It means that foreign investors can buy shares of Chinese companies on HKEx and inland investors also can directly trade Hongkong shares on SSE. At present, there are more companies choosing to cross-listing in both SSE and HKEx.

Hongkong is the first choice for Chinese companies to list on among foreign markets and is also the most intensive destination for Chinese foreign listing.

HKEx has the main board and GEM for entrepreneurs. The methods for domestic companies IPOs in HKEx have mainly three methods: (1) issue H shares (domestic registered companies get approval from CSRC to go public in HKEx); (2) issue red chip stocks (foreign companies registered in Hongkong, Bermuda, Cayman island going public); (3) Reverse merger (purchase the majority shares of a public companies and get controlling power). Even Hongkong came back to China in 1997, Hongkong and China share the same culture and etiquette. It's much easier for Chinese CEO to accept Hongkong as IPO destination compared to those far away stock exchange locations.

In 2019, there is an announce that Shanghai Stock Exchange (SSE) is about to launch the Sci-Tech Innovation Board before the end of year 2019. This announce not only put pressures to Hongkong, Nasdaq stock market but also to ChiNext of Shenzhen Stock Market. Sci-Tech Innovation could be China's Nasdaq. But SSE said the new board will make appropriate adjustments regarding companies' profitability and shareholding structures, and will be more inclusive toward innovators.

CHAPTER 2

REVIEW OF LITERATURE

2.1 Literature review and statistics

With the fast improvement of information technology as well as the transportation, foreign IPOs nowadays is quite popular and provides more stages and platforms for companies to collect capital helping further development. After China integrating into WTO, Chinese companies exposed themselves to the world at a higher degree. America has the biggest stock market in the world, therefore, it becomes the one of the most attractive financial centers to go listings. UK is also another historical country where started the capitalized market and firstly has full economic system. But as for Chinese companies, Hongkong, Singapore are more popular compared to the United Kingdom, the isolated island in the Atlantic Ocean. Since the similarity of ethnics, culture and close locations, Hong Kong and Singapore, where is the financial centers in South East of Asia, become the most popular destinations for Chinese companies. (Source: C.X. Zhang, T.-H.D. King “The decision to list abroad: The case of ADRs and foreign IPOs by Chinese companies,” *J. of Multi. Fin. Manag.* 20 (2010) 71–92,). C.X. Zhang, T.-H.D. King found that the top performers who has better profitability and bigger size tend to list in America by the form of ADRs since U.S.A. has more stringent requirements and accounting regulatory. High growth, high risk and high-tech companies significantly like to choose to list by ADRs because of the need for foreign expertise and external financing. What is different from their hypothesis is about financial leverage. Normally the high financial leverage ratio of a company reflects weak debt capacity, so they demand capital from the market to support the companies. But Chinese companies who most likely to list by ADRs turned out to be low financial leverage ratio. It is explained that because the unique Chinese social and political culture limits sources of borrowing for companies.

After the wake of financial crisis, the world capital flow triggered the researchers’ curiosity. It is found that the financial degree of the home country greatly influences the decision of company go to abroad or not. If the stock market of the home

country is less developed and disclosure policy is less complete, company tends to go to foreign countries to raise capital. (Source: Cecilia Caglio, Kathleen Weiss Hanleyb, Jennifer Marietta-Westbergc, “Going public abroad”, *Journal of Corporate Finance* 41(2016) 103-122). The paper also found that the decision listing in the United States is different from other financial markets and “the global underwriters facilitates the movement of capital all around the world and contribute to world financial globalization”, concluded by Cecilia Caglio. Besides, the authors also made study about the factors that the market characteristics could influence the decision to list abroad. Bigger companies with lower profitability are more likely to go to foreign listings, and at the same time more of those companies are high-tech companies. Also, the company which has more proportion in foreign sale tends to go public in product countries because of the familiarity with the foreign investors.

ChiNext was launched in the third quarter in 2009. The issuance of this new Nasdaq-style board moved another huge wave of listing of technology companies. Some technological companies still go for public on US exchange instead of domestic ChiNext Board. Ufuk Güçbilmez, “Why do some Chinese technology firms avoid ChiNext and go Public in the US”, *International Review of Financial Analysis* 36(2014)179-194, researched the reasons to explain the phenomenon. “Foreign VC backing is the decisive factor behind the choice of IPO location”, and “in particular, size and profitability are both significant determinants of IPO location”, small but profitable Chinese technology companies prefer to list in domestic stock market but the big-size foreign VC backed companies prefer to go public in the financial stock market in the United States.

Together with the globalization and the big financial crisis happened in 2007-2008, Chinese companies grew up with the international trends. Throw eyes into domestic market in last two years in 2017 and 2018, the Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE) recorded 105 new listings and the total raised capitalization reached to RMB 137.9 billion during 2018 and the number of IPOs had a significant drop, about 40% compared to the prior year. But the IPOs size increased significantly to medium and large size. Compared to past five years, only 10% of IPOs were over medium and large size. After Xi Jinping received the general secretary and President of the People’s Republic of China in 2012, anti-corruption

campaign was started under his signature, which struck a group number of prominent incumbent and retired Communist Party officials, helping clearing the barriers of economic environment for better development. He also advocated Internet censorship in China as the concept of “Internet sovereignty” and push the free trade and globalization by the “One Belt One Road Initiative”. Because of big improvement of law and regulations, the regulators of CSRC (China Securities Regulatory Commission) stressed on “quality-over-quantity”, and this increased the entrance level of listing for numbers of companies. Regulators also have continued to show support for major technology initiatives such as “internet plus” and artificial intelligence (AI), and the announcement of a new high-tech board to be set up in Shanghai in year 2019.

Due to the listing decisions influenced over the economics and social environment, the previous researches about Chinese IPOs could be added more studies. In this paper, the statistics about the Chinese companies IPOs are collected to study the foreign listing decisions in Hong Kong and America. The company name, listing date are from Datastream, the company profiles and financial characteristics come from Datastream and Worldscope. After deleting the incomplete data, we narrow down our study range within 299 companies. The sample includes the data from year 2013 to 2018, especially the period after the Global financial crisis, President Xi acknowledged the power to the People’s Republic of China, when TMT (technology, media, telecom) industry got the chance to have fast development and Chinese economic environment had a big reform. There are 223 domestic IPOs, 58 Hong Kong IPOs, 18 America IPOs by ADRs studied in this paper and no repeating exists in the groups. Federal Reserve Bank of St.Louis Economic Data (FRED) is also be referred to collect exchange rate between Chinese Yuan and American Dollar, Hong Kong Dollar and American Dollar, and Consumer Pricing Index(CPI) for China, Hong Kong and America are also retrieved from FRED. The financial dollar values are recorded in millions of 2017 US dollar (calculated on the first day of 2018). All accounting variables are measured at the end of year immediately prior to the issue date. Ratio and growth variables are presented in percentages. our samples have the company’s sectors including household goods and home construction, travel and leisure, chemicals, media, software and computer services, technology hardware and equipment, general retailers, chemicals, pharmaceuticals and biotechnology, food and drug retailers, beverages, alternative

energy, chemicals, mobile telecommunications, electricity, financial service(sector), industrial metals and mining, industrial transportation, unclassified, altogether 18 different sectors. Those three different groups are searched within those eighteen sectors.



Table 2.1 Descriptive statistic for each category (1)

DOMESTIC IPO	OBSERVATION NUMBER=222				HONG KONG IPO	OBSERVATION NUMBER=56				AMERICA IPO	OBSERVATION NUMBER=18			
	MEAN	STA.DEV.	MIN	MAX		MEAN	STA.DEV.	MIN	MAX		MEAN	STA.DEV.	MIN	MAX
PPE	2369.8	22324.5	1.02	330451.70	2637.39	5644.29	1.40	31675.43	1134.22	1908.81	9.72	6451.11		
OPERATING INCOME	354.2	1159.9	1.51	13177.44	408.13	1233.88	-3210.67	5327.03	949.23	6023.18	-5869.43	24147.01		
CASH	273.2	2282.8	0.00	24902.87	2292.49	4103.99	17.85	23256.80	5317.99	14033.61	24.63	57739.78		
TOTAL ASSETS	4807.6	27615.9	8.33	373164.70	16400.23	33764.28	209.71	192544.60	13808.36	26652.72	426.25	109414.70		
NET SALES	3152.3	13717.5	11.70	183138.30	6695.83	18312.03	22.36	116711.60	13342.69	29793.57	373.35	118803.30		
SHORT DEBT	1684.4	10720.3	0.15	151048.60	1900.00	4009.19	0.08	21054.72	902.99	2168.85	7.59	9229.42		
ROA	0.1	0.1	0.02	0.41	0.01	0.10	-0.36	0.45	-0.05	0.20	-0.52	0.22		
ROS	0.2	0.1	0.02	0.53	-0.21	1.11	-7.56	0.53	-0.07	0.32	-0.94	0.42		
ROCAA	0.2	0.1	0.02	1.57	0.02	0.17	-0.46	0.97	-0.08	0.38	-1.26	0.47		
ASSETS GROWTH	0.6	0.4	-0.09	2.21	0.24	0.68	-0.23	3.56	0.93	0.65	-0.09	2.16		
SALES GROWTH	0.1	0.2	-0.51	1.10	0.33	1.76	-0.88	12.65	0.76	0.60	0.27	2.59		
HIGH-TECH DUMMY	0.4	0.5	0.00	1.00	0.18	0.39	0.00	1.00	0.39	0.50	0.00	1.00		

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Hypotheses

A large number of studies about foreign listings have been conducted over those years. The main financial benefits for companies going to public in foreign countries instead of choosing domestic countries is mainly because of the capital market segmentation. Due to the difficulty to access to the foreign capital flow, which is caused by the geographical reasons or governmental interferences, it greatly influences the companies' ability to collect more information about getting more finance from wider markets. Therefore, out-ward going to list in foreign markets can solve the problems caused by the limitations of governments, locations and capital raising, questing for higher stock price and lower cost of capitals.

Bancel et al(2001) in his paper "European Financial Management" mentioned that managerial surveys show that firms list overseas for a variety of reasons, which includes the financial reasons for raising capital or increasing stock liquidity, the strategic reasons for improving corporate profiles and reputations, opening markets into listing destinations. What's more, cost of foreign listings embedded with listing and legal fees, regulatory and reporting requirements of different jurisdictions varies a lot from different stock market.

Empirical researches which studies the reasons for oversea listings mainly start from two approaches. One party stress on the share price, risk and return, stock liquidity of the listing shares about the date of the listing announcement. Another party studies the reasons behind the listing decisions by clinical studies or survey format. But no matter what kind of approach it takes, many researchers have listed many good sides for companies choosing foreign markets for list considering the firm size, exchange cost, country limitation, accounting requirements, sales markets and other various factors.

In this section, empirical hypotheses would be put forward based on the former studies and current social circumstance.

After the year of 2008 Global Financial Crisis, how does the Chinese companies make listing choices and why do they list abroad if they choose the foreign market? So in this paper, we studies the reasons for Chinese companies making listing reasons in foreign countries – the most popular destinations for Chinese firms- Hong Kong and America.

Growth demand for capital.

From year 1993 to 2005, Chinese companies which decided to foreign listings achieve to 251 companies in the total sample of 1669. Even the proportion of the foreign listings looks quite small compared to the big numbers of Chinese domestic companies, we can still see there is a stable increasing trend in foreign listings by years. With the development of Chinese economic market, Chinese companies can't get enough capital supply from the overdemanding stock market. There are averagely 1000 companies every year after 2008 waiting in lines to get the IPO approvals from the CRSC. The approval rate is becoming even lower accompanied with the stricter demand for quality companies over the quantity. Besides the long queue in governmental lounge, the loans accessibility is also another problem for Chinese companies. Traditionally, Chinese people would not like to borrow from people. Banks prefer to loan to big-size and guaranteed companies which are more trustworthy. Under such social reality, many companies which needs capitals for development support have to head to the foreign markets, changing their directions to solve the capital financing problems.

H1: Chinese companies which are in fast expansion needs more capital to support the growth.

Technological access to companies

Pagano et al.(2002) founds that American exchange market have more high-tech and export-oriented European firms with rapid expansionary plans because American analysts are more familiar with the assessment of high technological companies, giving capital raising accessibility for those companies. Bancel el al(2001) also mentioned that the industry-specific factors is also an important reasons by many firms for listing in America. Listing on the foreign exchanges where have the same

peers there, can offer good valuations with the existing of comparative benchmark with specific investors, such as the Nasdaq or some countries issuing specific board, especially for high technology, bio-technology or TMT industries. As technology taking the trend for future development, more companies start the research and development on new emerging industries-such as media, AI, clouds computation, blockchain and so on. C.X.Zhang, T.-H.D. King also concluded in their paper that high tech, high growth, profitable and large companies tend to list abroad no matter where their destination is either in Hong Kong or in America by ADRs.

H2: Chinese high-tech companies choose to list in foreign market because of the industry-specific factor and the higher growth rate.

Financial disclosure costs taken by larger firms with better profitability.

Even China is one of the fastest growing countries all around the world, the financial facilities can not timely keep up with the significant changes of economic growth. Many Chinese companies have grown up from the beginning small and medium size into big size, and currently they are seeking for another chance to become stronger and expand to the world. Landing on foreign market is one of the ideal solutions for those companies, accessing to bigger capital markets with more global investors. W-jcik et al (2010) concluded in his paper "Economic Geography": Chinese foreign-listing firms are mostly large companies, from a variety of sectors with industrials and financials in the lead, that spreads themselves quite evenly across the London and New York markets. Beijing overpassed Shanghai as the headquarters of foreign-listing companies. China has not only the largest numbers of foreign listing companies but also has the most potential for further growth. Apart from the size factor, foreign listings also require quite a big compromise to the company's disclosures. The financial disclosure costs include mandated accounting, listing and regulatory requirements and disclosures required by the market's investors. So the companies who can afford the financial disclosure costs should be the bigger companies with potential profitability, which can directly face the questionable investors without fear and discouragement.

H3: Foreign listing decisions are more made by those bigger and profitable companies who can afford higher disclosure costs of listings

3.2 Research and methodology

In this part, we are going to use multinomial logit model to study the reasons for Chinese foreign listings. Firstly, we divided the sample data into three categories. The first one is domestic listings which is taken as zero. The second group is Hong Kong listing group which is categorized as 1, and the last group is listed as American ADRs group, sequenced as two. We divided them according to the listing markets. We also collect the financial variables from Worldscope and Datastream. For American ADRs group, we collect the Chinese companies which listed both on Nasdaq and NYSE. For Hong Kong Market, the Stock Exchange of Hong Kong is our study source for this group. As for Chinese domestic IPO listings, we collect the companies both on Shanghai and Shenzhen stock markets, no overlapping among all the companies in our samples.

To analyze our hypotheses, all the data are used the number prior to the listing year, listing year starting from year 2013. Asset growth rate $[(\text{Asset}_t - \text{Asset}_{t-1}) / \text{Asset}_{t-1}]$ and sales growth rate $[(\text{Sales}_t - \text{Sales}_{t-1}) / \text{Sales}_{t-1}]$ are calculated to test the first hypothesis, which is the Chinese companies in fast expansion needs more capital to support the growth. PPE (property, plant and equipment) and total assets are collected to calculate PPE/Total assets rate which is a risk factor to evaluate the risk degree of the company. We need to note that the lower the PPE/Total Assets, the riskier the company is. Because the companies which have less fixed capital are more likely to go bankruptcy and have problems in capital liquidity. High-tech dummy variable is classified by the information listings on Datastream. We group media, software and computer services, technology hardware and equipment, pharmaceuticals and biotechnology, alternative energy, mobile telecommunications those six sectors as High-tech companies, and they are marked as one and the others are marked as zero. We also collect operating income, cash and net sales to calculate the ROA (Return on asset), ROS (Return on sales), and ROCAA those three profitability indicators, for the test of hypothesis three. ROA come out by using the operating income divided by total

assets; ROS is calculated by operating income divided by total sales; ROCAA is derived by operating income divided by total assets excluding cash. We also use logarithm of total assets to measure the company size and test hypothesis three. The bigger the company is, the high the log(total assets) would be.

We set six models to test above hypotheses. The first three models are run by the same sales growth but used different profitability indicators, ROA, ROCAA and ROS respectively. Another three models are tested under the same financial growth indicator-asset growth, but tested different profitability indicators, ROA, ROCAA, and ROS respectively.

$$Y_1 = \alpha_0 + \beta_{11}(\text{LOG(TOTAL ASSETS)}) + \beta_{21} \left(\frac{\text{PPE}}{\text{(TOTAL ASSETS)}} \right) + \beta_{31}(\text{ROA}) + \beta_{41}(\text{SALES GROWTH}) + \text{HIGH_TECH DUMMY} + \varepsilon_0$$

$$Y_2 = \alpha_1 + \beta_{12}(\text{LOG(TOTAL ASSETS)}) + \beta_{22} \left(\frac{\text{PPE}}{\text{(TOTAL ASSETS)}} \right) + \beta_{32}(\text{ROCAA}) + \beta_{42}(\text{SALES GROWTH}) + \text{HIGH_TECH DUMMY} + \varepsilon_1$$

$$Y_3 = \alpha_2 + \beta_{13}(\text{LOG(TOTAL ASSETS)}) + \beta_{23} \left(\frac{\text{PPE}}{\text{(TOTAL ASSETS)}} \right) + \beta_{33}(\text{ROS}) + \beta_{43}(\text{SALES GROWTH}) + \text{HIGH_TECH DUMMY} + \varepsilon_2$$

$$Y_4 = \alpha_3 + \beta_{14}(\text{LOG(TOTAL ASSETS)}) + \beta_{24} \left(\frac{\text{PPE}}{\text{(TOTAL ASSETS)}} \right) + \beta_{34}(\text{ROA}) + \beta_{44}(\text{ASSETS GROWTH}) + \text{HIGH_TECH DUMMY} + \varepsilon_3$$

$$Y_5 = \alpha_4 + \beta_{15}(\text{LOG(TOTAL ASSETS)}) + \beta_{25} \left(\frac{\text{PPE}}{\text{(TOTAL ASSETS)}} \right) + \beta_{35}(\text{ROCAA}) + \beta_{45}(\text{ASSETS GROWTH}) + \text{HIGH_TECH DUMMY} + \varepsilon_4$$

$$Y_6 = \alpha_5 + \beta_{16}(\text{LOG(TOTAL ASSETS)}) + \beta_{26} \left(\frac{\text{PPE}}{\text{(TOTAL ASSETS)}} \right) + \beta_{36}(\text{ROS}) + \beta_{46}(\text{ASSETS GROWTH}) + \text{HIGH_TECH DUMMY} + \varepsilon_5$$

Before running those models, assumptions tests were firstly operated in STATA. Normal distribution, Multicollinearity test, serial correlation, and heteroskedasticity were executed to make sure the model running fit the multilinear regression assumptions.

Table 3.1 Multinomial logit model running results between Chinese domestic IPO versus Hong Kong IPO and Chinese domestic IPO versus American IPO (1)

DOMESTIC IPO VERSUS HONGKONG IPO						
	MODEL1	MODEL2	MODEL3	MODEL4	MODEL5	MODEL6
LOG(TOTAL ASSETS)	3.691	5.076	8.360	3.184	4.633	7.043
	0.010*	0.000*	0.000*	0.002*	0.000*	0.000*
PPE/TOTAL ASSETS	0.033	0.304	0.021	0.044	0.034	0.160
	0.004*	0.001*	0.001*	0.004*	0.001*	0.000*
ROA	0.000			0.000		
	0.000*			0.000*		
ROCAA		0.000			0.000	
		0.000*			0.000*	
ROS			0.001			0.002
			0.000*			0.000*
ASSETS GROWTH				0.978	0.413	0.421
				0.973	0.105	0.113
SALES GROWTH	2.158	2.112	1.980			
	0.200	0.162	0.230			
HIGH-TECH DUMMY	0.312	0.295	0.358	0.335	0.374	0.371
	0.023*	0.008*	0.028*	0.028*	0.028*	0.035*
_CONS	0.006	0.000	0.000	0.013	0.001	0.000
	0.021*	0.000*	0.000*	0.002*	0.001*	0.000*
DOMESTIC IPO VERSUS AMERICAN ADR IPO						
	MODEL1	MODEL2	MODEL3	MODEL4	MODEL5	MODEL6
LOG(TOTAL ASSETS)	7.770	7.244	11.317	6.965	10.599	14.970
	0.000*	0.000*	0.000*	0.001*	0.000*	0.000*
PPE/TOTAL ASSETS	0.000	0.000	0.000	0.000	0.000	0.000
	0.000*	0.001*	0.001*	0.006*	0.003*	0.001*
ROA	0.000			0.000		
	0.000*			0.000*		
ROCAA		0.000			0.000	
		0.000*			0.000*	
ROS			0.004			0.001
			0.001*			0.000*
ASSETS GROWTH				4.200	2.701	3.848
				0.042*	0.051*	0.005*
SALES GROWTH	11.941	3.478	5.987			
	0.000*	0.025*	0.002*			
HIGH-TECH DUMMY	0.547	0.549	0.676	0.738	0.745	0.683
	0.432	0.378	0.547	0.683	0.667	0.560
_CONS	0.000	0.000	0.000	0.000	0.000	0.000
	0.002*	0.000*	0.000*	0.003*	0.000*	0.000*
PROB>CHI2	0.000	0.000	0.000	0.000	0.000	0.000
PSEUDO R2	0.497	0.384	0.394	0.476	0.389	0.404

* denotes the significance at the 0.05 level

We can watch the running results of multinomial logit model in Table 2. Firstly, we check the report from the six models of domestic IPO versus Hong Kong IPO. LOG(TOTAL ASSETS) are significant in all six models and absolutely the big-size Chinese companies are more likely to list on Hong Kong stocks market. And PPE/TOTAL ASSETS also reflect significant in all models which means riskier companies prefer to list in Hong Kong instead of inland China. At the same time, high-tech dummy variables give us significant results in all models which demonstrate that technological Chinese companies tend to go outside to Hong Kong compared to staying in domestic market. ROA, ROCAA and ROS are all significant in models, showing that going to Hong Kong can help company have higher income than companies listing in domestic markets. But one thing we need to notice is that the asset growth and sales growth those two variables show less influence to Hong Kong IPOs.

Compared to the above comparison group, we check the possibility of IPOs listing in American stock market compared to IPOs listing in domestic market. LOG (TOTAL ASSETS), PPE/TOTAL ASSETS, ROA, ROCAA, ROS are significant in all models. But for asset growth and sales growth, compared with domestic IPO versus Hong Kong IPOs, become more influential to Domestic IPO versus American ADR IPO. That means those fast-growing Chinese companies prefer to choose American market over domestic market, which prove the hypothesis one, Chinese companies in fast expansion need more capital to support the growth. But for the high-tech dummy variable, we only get significant result for the first model. We think the reason for such situation is because of our small sample for American ADR IPO sample, which only has 18 Chinese companies.

Vertically, we can observe that the company size does influence Chinese companies making decision on foreign listings. The bigger the company size is, the more likely the Chinese company go to either Hong Kong or America. But the growth rate is less significant observed in Hong Kong market. Chinese companies which have obvious growth rate are preferring to land on American stock market. And if the company is a risky company, the more probability the company would go to foreign markets. And what need us to pay attention is that if the company is a high technological company with risky factors, the higher likely the company would go to Hong Kong market instead of the American market. But high-tech Chinese companies would

choose American market by ADRs because of company fast growing rate. As for the profitability, we can see for both Hong Kong IPO and American IPO related to Chinese domestic market, it reflects significantly that big companies with better profitability would go to foreign market rather than staying in domestic market.

Table 3.2 Probit regression running result of Hong Kong and America IPO (2)

PROBIT REGRESSION						
HONG KONG IPO VERSUS AMERICAN ADR IPO (number of observation=74)						
	MODEL1	MODEL2	MODEL3	MODEL4	MODEL5	MODEL6
LOG(TOTAL ASSETS)	0.109	0.167	0.104	0.385	0.382	0.313
	0.677	0.535	0.697	0.195	0.195	0.278
PPE/TOTAL ASSETS	-3.474	-4.273	-3.756	-2.765	-2.811	-3.216
	0.015*	0.005*	0.016*	0.064	0.060	0.044
ROA	-0.163			-1.530		
	0.856			0.259		
ROCAA		-0.636			-0.930	
		0.435			0.252	
ROS			0.529			-0.137
			0.183			0.567
ASSETS GROWTH				0.670	0.671	0.647
				0.006*	0.006*	0.007*
SALES GROWTH	-0.015	0.196	0.458			
	0.885	0.105	0.048			
HIGH-TECH DUMMY	0.775	0.722	0.753	0.768	0.765	0.841
	0.053	0.087	0.068	0.075	0.076	0.045
_CONS	-1.094	-1.383	-1.181	-3.097	-3.067	-2.653
	0.468	0.366	0.441	0.081	0.081	0.121
PROB>CHI2	0.034	0.005	0.003	0.001	0.001	0.001
PSEUDO R2	0.145	0.202	0.217	0.266	0.268	0.253

* denotes the significance at the 0.05 level

Table3.3 Multinomial logit model running result of Hong Kong and America IPO (3)

MULTINOMINAL LOGIT REGRESSION						
HONG KONG IPO VERSUS AMERICAN ADR IPO						
	MODEL1	MODEL2	MODEL3	MODEL4	MODEL5	MODEL6
LOG(TOTAL ASSETS)	1.187	1.335	1.224	1.900	1.880	1.708
	0.698	0.521	0.652	0.198	0.202	0.266
PPE/TOTAL ASSETS	0.002	0.000	0.001	0.008	0.007	0.003
	0.027*	0.013*	0.032*	0.088	0.083	0.063
ROA	0.727			0.075		
	0.827			0.255		
ROCAA		0.332			0.209	
		0.434			0.255	
ROS			2.195			0.754
			0.260			0.507
ASSETS GROWTH				3.017	3.041	2.901
				0.014*	0.014*	0.014*
SALES GROWTH	0.969	1.471	2.122			
	0.846	0.089	0.056			
HIGH-TECH DUMMY	3.365	2.845	3.205	3.450	3.423	3.836
	0.072	0.144	0.101	0.096	0.099	0.065
_CONS	0.183	0.103	0.132	0.006	0.007	0.012
	0.506	0.376	0.432	0.091	0.093	0.125
PROB>CHI2	0.037	0.005	0.004	0.001	0.001	0.001
PSEUDO R2	0.142	0.205	0.214	0.258	0.260	0.246

* denotes the significance at the 0.05 level

To have a better study for the reasons for Chinese foreign IPOs, we further conduct probit model to see the reasons for Chinese company choice between Hong Kong and America. Probit model is a type of regression where the dependent variable can take only two values, here stay in Hong Kong or not stay in Hong Kong. To maintain the comparability of the model results, we keep using multinomial logit model, but to test the reliability, we execute probit model after that to test the consistency of the results. And it shows that the multinomial logit model and probit model produce the similar results. Comparison between Hong Kong and America, the reasons for company choice is not very significant. However, we can get PPE/TOTAL ASSETS and ASSETS GROWTH are important reasons for Chinese companies listing

decision. Companies which have more riskier properties would like to join Hong Kong market but the companies which has remarkable assets growth would go to America market by ADRs.



CHAPTER 4

STUDY CONCLUSION

Those years Chinese company foreign listings is becoming a more regular phenomenon in financial world. Chinese government took the economic reform after 2008 global financial economics, especially after year 2012 when Xi Jinping claimed the President of the People's Republic of China (PRC). High technology development is moved to the main headlines of society improvements. With the company growing up, they need more capital and broader platforms to open the resources. Hong Kong and America are the two main foreign destinations compared to the rest countries in the world. Hong Kong is becoming more popular and easier because of the close location, same language, same culture and privileged policies-stock connect link, which allow A shares list in Hong Kong and H shares go to domestic market as well without extra applications but only some easy process to register.

With the increasing numbers of foreign listings, Chinese government announced a technology and innovation board which will opened in Shanghai Stock Exchange in the third quarter in year 2019. This paper studies the motivations for Chinese company foreign listings. It can help analyzing the properties of those foreign-listing companies and to make a small contribution under the new economic era by studying the companies sample from year 2013 to 2018.

Take a look back to our hypotheses, those are as the following:

H1: Chinese companies which are in fast expansion needs more capital to support the growth.

H2: Chinese high-tech companies choose to list in foreign market because of the industry-specific factor and the higher growth rate.

H3: Foreign listing decisions are more made by those bigger and profitable companies who can afford higher disclosure costs of listings

Companies in fast expansion do choose either Hong Kong and America market to list. And assets growth plays a more important reasons for company choosing America ADR IPO than choosing Hong Kong. As for sales growth, companies who

would like to push the sales has higher probability to list in America market. That's because America has bigger platform compared to neighboring Hong Kong, where is in different continent, has longer financial history and more untouched consumers groups. Deciding to list in America, the company can raise more money to help firm growing.

The Stock Exchange of Hong Kong in recent year has more and more high-tech companies list there. Even though America is still a hot place for high-tech companies, but recent year, we can see the high-tech unicorn companies would choose Hong Kong over America market. In this paper, from the first model, we can see the high-tech company has more possibility of listing in America compared to Hong Kong. But the high-tech variable seems more significant in Hong Kong market and we think this is because of our small sample leading to this result. But Chinese domestic market also become many fast-growing companies' destination when making choice with Hong Kong market. We think this is happening due to Chinese fast-growing rate in recent ten years. The fast-growing rate of Chinese companies which list on domestic market and Hong Kong market almost share the similar growth rate but when making decision to list in America, the companies which have noteworthy growth rate tends to list in America in a higher possibility. This is consistent with previous papers and relative studies.

Big-size and profitable companies are more likely to list in foreign market. In our study, this hypothesis is the same as the other study papers. The company with bigger size and with higher profitability can afford the expensive cost of listings in foreign market, especially the disclosure cost of listings after IPOs there. They are big and benefitable to directly open their financial information and accept the supervision from the accounting and stock committee. It conversely helps them to withstand the challenges from the public and have a better chance to grow up, exposing themselves to the broader platform.

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APPENDICES

APPENDIX A

VARIABLES RESOURCES

FIRM AND OFFER VARIABLE	
VARIABLE	SOURCE
IPO DATE	DATASTREAM
IPO PRICE	DATASTREAM
IPO PROCEEDS	DATASTREAM
PPE	WORLDSCOPE
OPERATING INCOME	WORLDSCOPE
CASH	WORLDSCOPE
TOTAL ASSETS	WORLDSCOPE
NET SALES	WORLDSCOPE
SHORT DEBT	WORLDSCOPE
INDUSTRY SECTOR	WORLDSCOPE
CPI	FRED
EXCHANGE RATE	FRED

APPENDIX B

TECHNOLOGY DUMMY VARIABLE CLASSIFICATION

INDUSTRY SECTORS	TECHNOLOGY	NON-TECHNOLOGY
HOUSEHOLD GOODS AND HOME CONSTRUCTION		0
TRAVEL AND LEISURE		0
CHEMICALS		0
MEDIA	1	
SOFTWARE AND COMPUTER SERVICES	1	
TECHNOLOGY HARDWARE AND EQUIPMENT	1	
GENERAL RETAILERS		0
CHEMICALS		0
PHARMACEUTICALS AND BIOTECHNOLOGY	1	
FOOD AND DRUG RETAILERS		0
BEVERAGES		0
ALTERNATIVE ENERGY	1	
MOBILE TELECOMMUNICATIONS	1	
ELECTRICITY		0
FINANCIAL SERVICE (SECTOR)		0
INDUSTRIAL METALS AND MINING		0
INDUSTRIAL TRANSPORTATION		0
UNCLASSIFIED		0

APPENDIX C

CORRELATIONS IN MODELS

Correlations in Model 1					
	DUMMY	TOTAL ASSETS	PPE/TOTAL ASSETS	ROA	SALES GROWTH
DUMMY	1.000				
TOTAL ASSETS	-0.002	1.000			
PPE/TOTAL ASSETS	0.115	0.030	1.000		
ROA	-0.063	0.357	0.133	1.000	
SALES GROWTH	0.281	-0.123	-0.136	-0.168	1.000

Correlations in Model 2					
	DUMMY	TOTAL ASSETS	PPE/TOTAL ASSETS	ROA	SALES GROWTH
DUMMY	1.000				
TOTAL ASSETS	-0.011	1.000			
PPE/TOTAL ASSETS	0.130	-0.010	1.000		
ROA	-0.180	0.255	0.045	1.000	
SALES GROWTH	0.268	-0.038	0.198	-0.113	1.000

Correlations in Model 3					
	DUMMY	TOTAL ASSETS	PPE/TOTAL ASSETS	ROA	SALES GROWTH
DUMMY	1.000				
TOTAL ASSETS	-0.011	1.000			
PPE/TOTAL ASSETS	0.130	-0.010	1.000		
ROA	-0.155	0.115	-0.328	1.000	
SALES GROWTH	0.268	-0.038	0.198	-0.799	1.000

Correlations in Model 4					
	DUMMY	TOTAL ASSETS	PPE/TOTAL ASSETS	ROA	SALES GROWTH
DUMMY	1.000				
TOTAL ASSETS	-0.011	1.000			
PPE/TOTAL ASSETS	0.130	-0.010	1.000		
ROA	-0.158	0.287	0.071	1.000	
SALES GROWTH	0.086	-0.245	-0.307	-0.035	1.000

Correlations in Model 5					
	DUMMY	TOTAL ASSETS	PPE/TOTAL ASSETS	ROA	SALES GROWTH
DUMMY	1.000				
TOTAL ASSETS	-0.011	1.000			
PPE/TOTAL ASSETS	0.130	-0.010	1.000		
ROA	-0.180	0.255	0.045	1.000	
SALES GROWTH	0.086	-0.245	-0.307	-0.028	1.000

Correlations in Model 6					
	DUMMY	TOTAL ASSETS	PPE/TOTAL ASSETS	ROA	SALES GROWTH
DUMMY	1.000				
TOTAL ASSETS	-0.011	1.000			
PPE/TOTAL ASSETS	0.130	-0.010	1.000		
ROA	-0.155	0.115	-0.328	1.000	
SALES GROWTH	0.086	-0.245	-0.307	0.095	1.000

BIOGRAPHY

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