Hong Kong IPO pipeline set to suffer amid Beijing's scrutiny of 'red-chip' listings

By **Reuters**

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[1/2] Bull statues near screens showing the Hang Seng stock index and stock prices outside Exchange Square, in Hong Kong, China, February 3, 2026. REUTERS/Tyrone Siu/File Photo Purchase Licensing Rights

Summary

- Red-chip IPOs set to face lengthy delays as domicile rules change
- Foreign interest in Chinese firms expected to take a hit
- Regulators want to boost oversight of how red-chip firms use listing proceeds, sources say

HONG KONG, March 18 (Reuters) - Beijing's tightened scrutiny of plans by Chinese companies incorporated outside mainland China to list in Hong Kong could have a significant impact on the city's rich IPO pipeline - at least in the short-term, bankers and lawyers said.

Sources have said authorities have told some so-called red-chip companies that they should change their domicile back to China before going public. Such firms are registered abroad, mainly in tax havens, but hold assets and businesses in China via equity ownership.

The China Securities Regulatory Commission confirmed that some red-chip companies have recently received guidance to unwind their structure.

That means some IPOs could be delayed by at least six months as red-chip companies scramble to change their domicile, bankers and other experts said, adding that some might even have to abandon their IPO plans as changing the legal structure of the company could be cost-prohibitive.

OVERSEAS INVESTORS MAY BE DISCOURAGED

Foreign interest in Chinese firms could also take a hit.

"For foreign investors, the dismantling of red-chip structures could reduce flexibility regarding equity stakes and future divestment," said Kenny How, a councillor at the Hong Kong Securities & Futures Professional Association.

This stems primarily from the strict foreign exchange controls governing capital outflows from mainland China entities, coupled with extended lock-up periods of 12 months that investors must accept post-listing, he added.

After a bumper IPO year for Hong Kong in 2025 with funds raised surging 231% to $37 billion, more than 530 companies have filed applications to list, most of them Chinese, stock exchange data shows.

It was not clear how many are red-chip companies. But last year, one-fifth of 131 Hong Kong listings China approved involved offshore holdings, the majority of which used the red-chip structure, according to Chinese law firm Hankun.

Listing outside mainland China in places like Hong Kong and the U.S. has been a popular option for firms seeking to tap a deeper pool of foreign capital and avoid cumbersome rules and regulations at home.

The option did lose some of its allure, however, after Beijing unveiled new rules in March 2023 that required red-chip companies and other firms with offshore holding structures to seek listing approval from mainland authorities.

RED CHIPS HAVE ALWAYS BEEN CONTROVERSIAL

Beijing's latest action was prompted by the National Development and Reform Commission's concern that there was insufficient oversight over how such firms used their listing proceeds, said three people familiar with the matter.

The people declined to be named due to the sensitivity of the matter. The NDRC, China's state planning body, did not immediately respond to a Reuters request for comment.

"Controversy around red-chip structures has never really gone away. They've always been accused of dodging mainland regulations and facilitating capital flight," said Tian Meng, a lawyer at Dacheng Law Offices.

With data security and foreign investment access having become key issues, regulators want to see more transparent corporate structures, Tian said.

But that sits in some contrast with scenes unfolding elsewhere in the Kenyan capital.

For foreign investors, the boom in the Hong Kong IPO market since last year has provided an exit route for private equity and venture capital firms - a route potentially threatened by Beijing's scrutiny, some investors warned. Dollar-denominated funds typically invest in Chinese companies incorporated offshore.

Zhou Zhimin, an asset management veteran in biotech, said a sudden tightening of rules with little transparency could also hit the confidence of dollar capital.

But some analysts believe the longer-term impact of the move on Hong Kong listings would be limited.

"I believe this mainland measure is primarily aimed at improving the quality control of listed companies," said Kenny Ng, a securities strategist at China Everbright Securities International.

"In the long run, it should have a positive effect on the stock market development and on protecting investor interests."

Reporting by Kane Wu and Selena Li in Hong Kong, Yantoultra Ngui in Singapore, Samuel Shen in Shanghai and Ziyi Tang in Beijing; Editing by Sumeet Chatterjee and Edwina Gibbs

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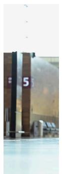

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