



Hong Kong Stock Exchange

INITIAL PUBLIC OFFERING

IPO Market in Hong Kong

- Going public or an IPO represents a milestone for most privately-owned companies. Many reasons exist for a company to go public. They include reducing debt, letting the original shareholders cash in some of their profits, and raising money for growth and acquisition, while spreading the risk of ownership.
- While there are many venues for going public, we focus on the Hong Kong Stock Exchange (HKEX) due to its large size, transparency, complete standards, international exposure, and attractive new listing requirements for technology companies.
- **Here are some facts:**
 - It was the #1 in IPO fundraising in five of the past nine years
 - It has raised over HK\$2 trillion over the past nine years
 - More than 2,100 companies are listed, including international and Mainland Chinese firms
 - Since the Stock Connect was launched in Nov 2014, over HK\$800 billion was invested in Hong Kong via Southbound Trading

Hong Kong Exchange Statistics

Hong Kong Exchange(as of Dec. 31.18)

	Main Board	GEM
No. of listed companies	1,926	389
No. of listed H shares	243	24
No. of listed red-chips stocks	159	5
Total market capitalization (Bn dollars)	HK\$297,232	HK\$1,862
Average P/E ratio	10.45	28.16
Total turnover (Mn shares)	82,421	668
Total turnover (Mn dollars)	HK\$32,691	HK\$206
Total market turnover (Mn dollars)	HK\$32,897	

Source: Hong Kong Exchange

Hong Kong Exchange 2018 Market Highlights

- Market capitalization was HK \$29.9 trillion at the end of 2018.
- Active secondary market trading - The average daily turnover in 2018 was HK \$107.4 bn, a record high and an increase of 22% from HK \$88.2 bn in 2017.
- The average daily turnover of derivative warrants in 2018 was HK \$15.7 bn, an increase of 29% from HK \$12.2 bn in 2017.
- There were 218 newly listed companies in 2018, an increase of 25% from 174 in 2017.
- Funds raised through IPOs in 2018 was HK \$286.5 bn, an increase of 123% from HK \$128.5 bn in 2017.
- On April 30, 2018, new listing rules took effect that broaden Hong Kong's listing regime, transforming Hong Kong equity market from traditional industries towards 'new economy' sectors. Three new chapters were added to the Main Board Listing Rules:
 - a) permit listings of biotech issuers that do not meet the Main Board financial eligibility tests
 - b) permit listings of companies with weighted voting right (WVR) structures
 - c) establish a new concessionary secondary listing route for Greater China and international companies that wish to secondary list in Hong Kong

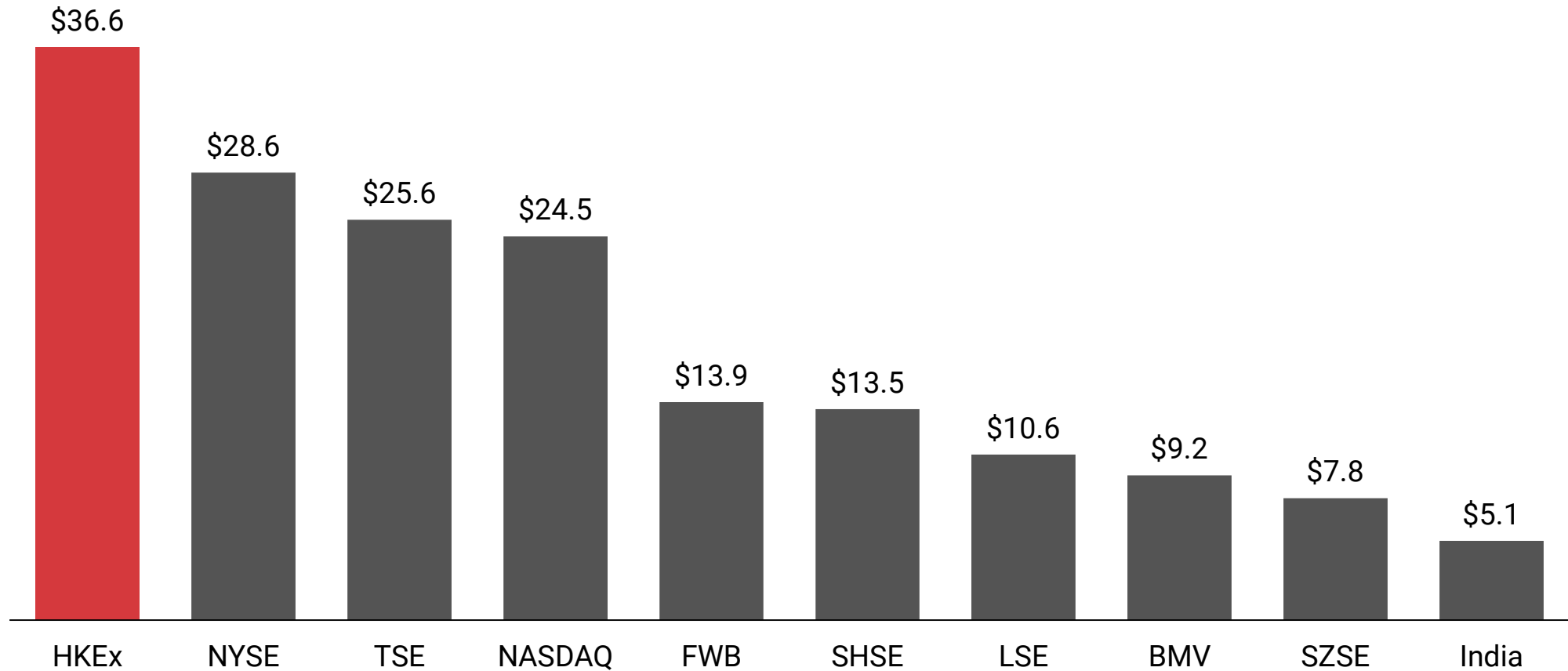


WHY LIST IN HONG KONG



The World's Largest IPO Exchange

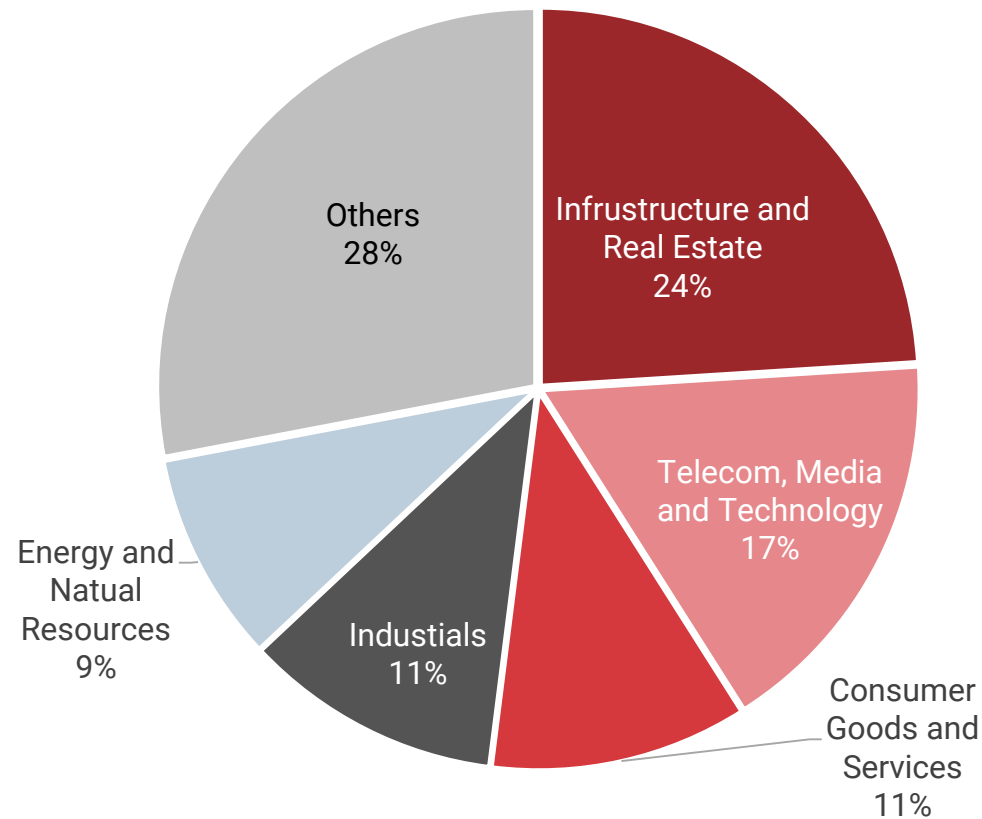
IPO Funds Raised by Various Exchanges in 2018 (US\$ bn)



Source: Hong Kong Exchange

No. of IPOs in 2018 by Sector

Main Board (2018)

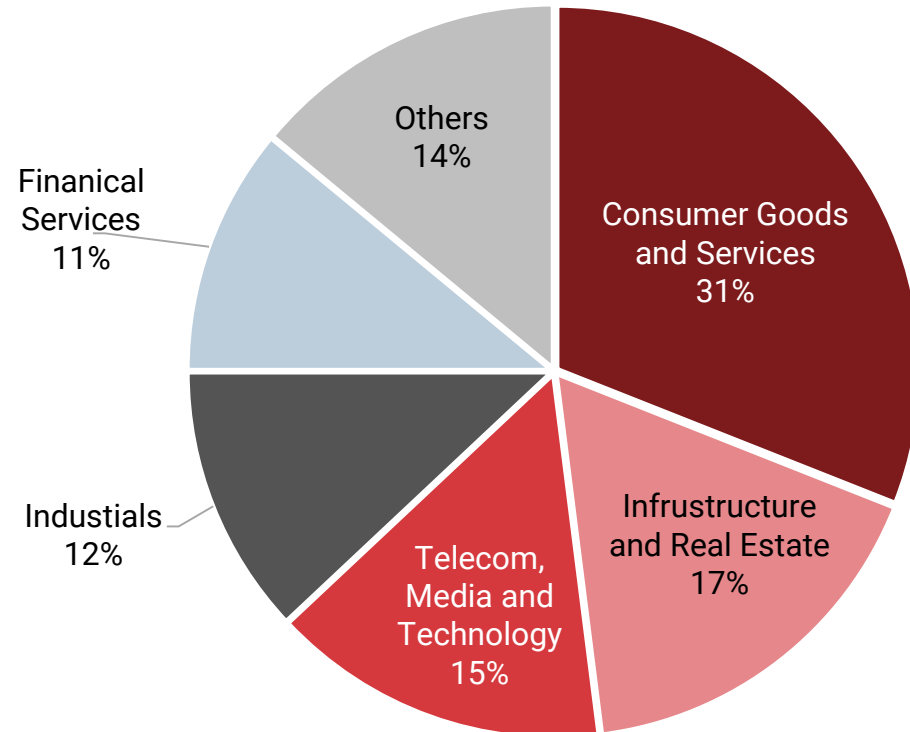


Source: Hong Kong Exchange, KPMG

- Infrastructure/Real Estate remains the largest sector for IPO, however the number of new listings as percentage of total new listings has reduced from 35% to 24% since 2017.
- TMT sector is has grown strongly as Hong Kong turned it's focus to technology. There are two mega-sized technology companies with a WVR structure listed in 2018.

No. of IPOs in 2018 by Sector

GEM (2018)

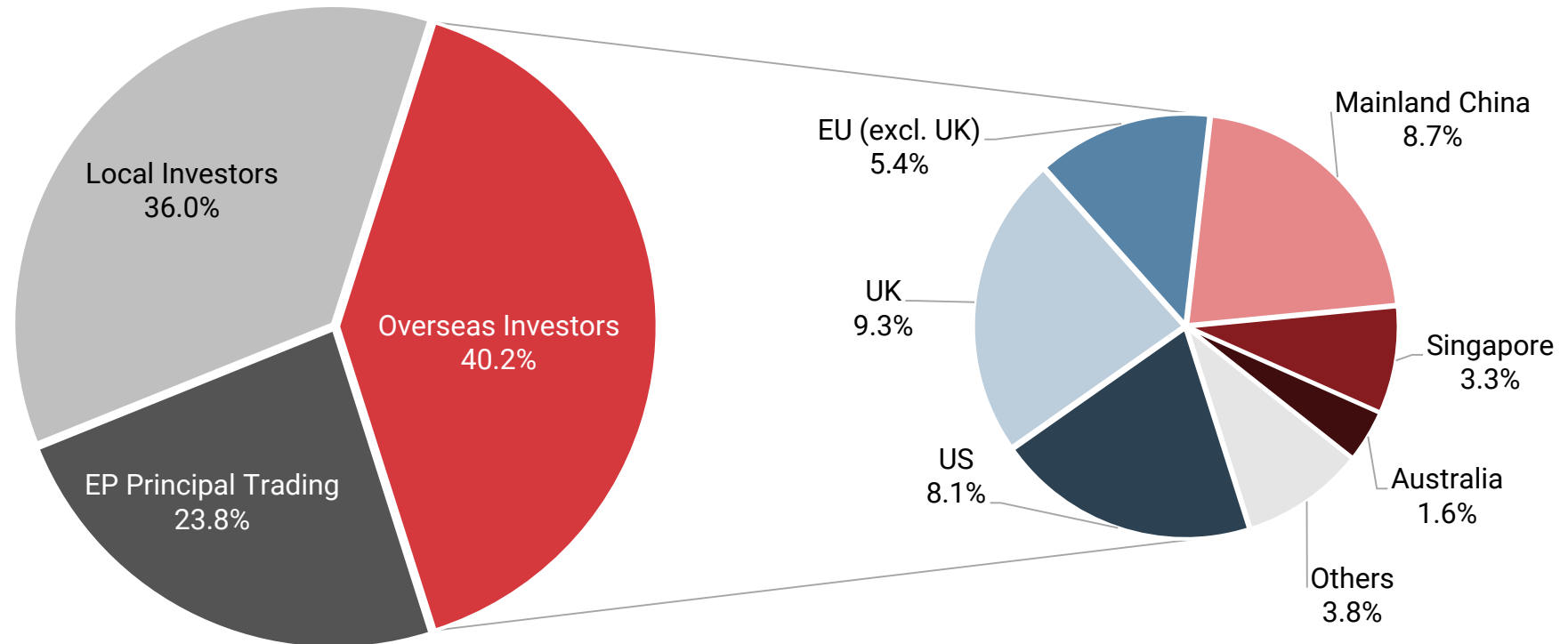


- Consumer Sector is the leading sector in HKEX, with 12 food and drinks companies listed in 2018, helping the sector jumped from the 3rd place in the list in 2017 to the top.
- Infrastructure and real estate sector has drop from the 1st to the 2nd in terms of numbers of IPOs. The sector mainly consists of companies in engineering consultancy and interior fit-out services.

Source: Hong Kong Exchange, KPMG

Diverse Investor Base

Distribution of Cash Market Trading Value by Origins (2016)



Source: HKEx Cash Market Transaction Survey 2016

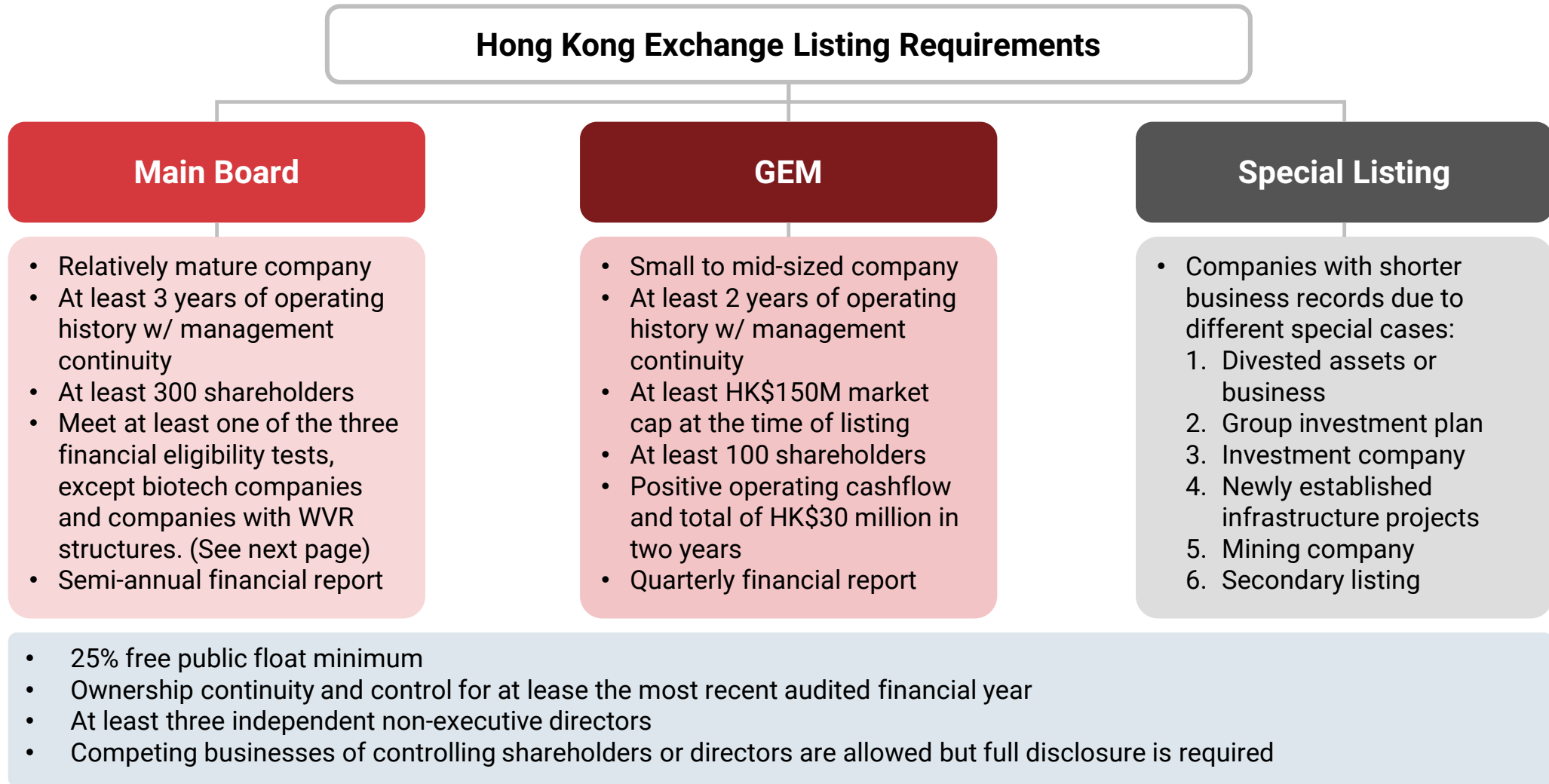
Key Advantages of IPO in Hong Kong

- Hong Kong acts as a gateway to Mainland China
 - Hong Kong offers opportunities for greater exposure to China and the rest of Asia
 - Hong Kong has continued to develop as an offshore RMB fund-raising center, which provides future fund-raising opportunities for companies seeking to expand in Mainland China
 - Stock Connect with access to investors in Mainland China
- Sound Regulatory Regime and Transparent Process
 - Hong Kong has a well-established legal system based on English common law, as well as a sound regulatory framework that promotes a high level of disclosure from listed companies
 - The Exchange promotes the use of international accounting standards, as well as other recognized accounting standards under certain circumstances, such as secondary listings
- Diverse and Global Participants
 - Hong Kong is not only the preferred location for Chinese companies to access to the international capital market, but also an important way for overseas companies to enter the Greater China market and increase brand awareness
- Access to Liquid Funding
 - Hong Kong provides for the free flow of capital, with tax advantages, currency convertibility and the free transferability of securities
 - Healthy active secondary market



HOW TO GET LISTED IN HONG KONG

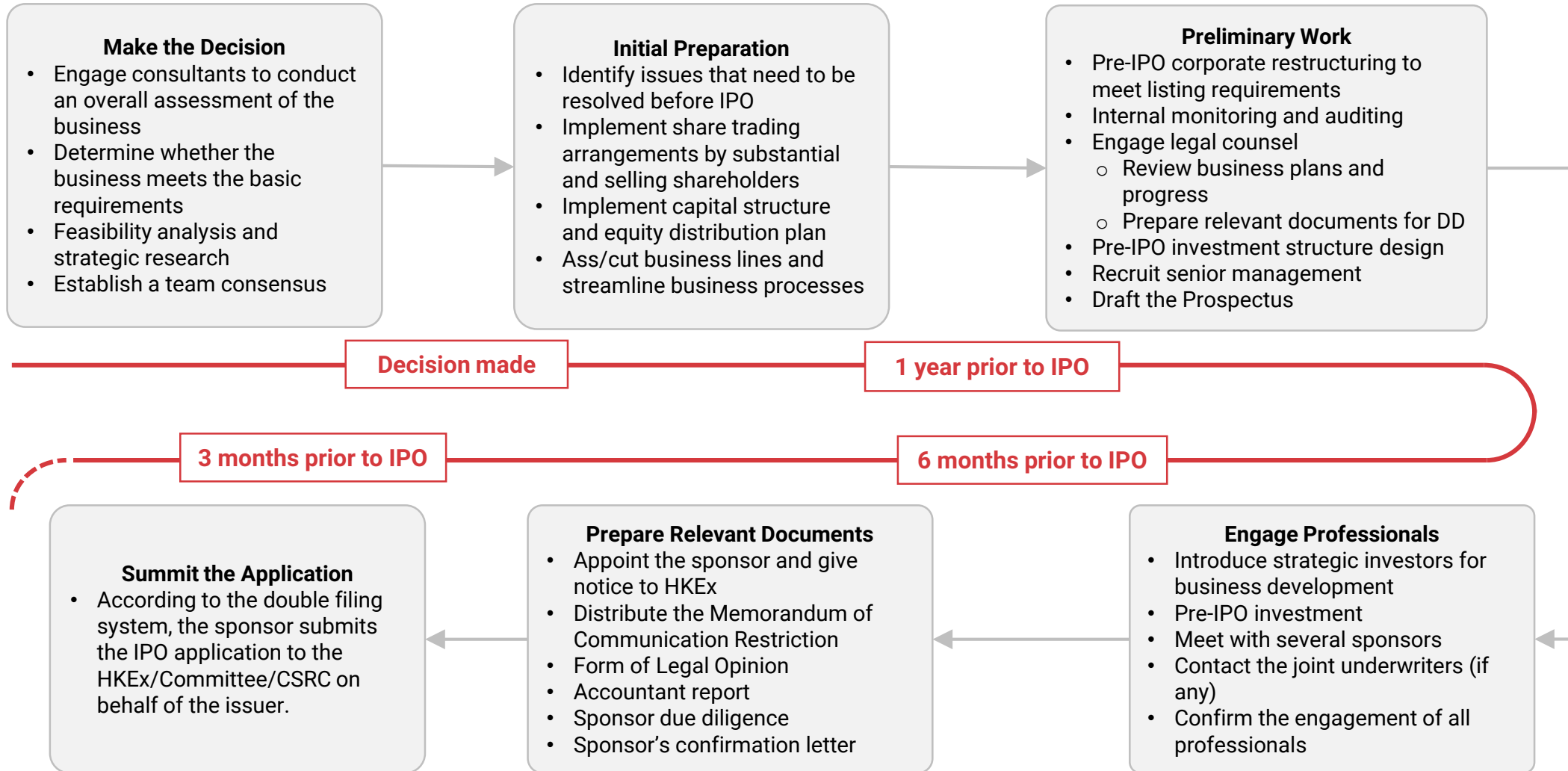
Basic Listing Requirements



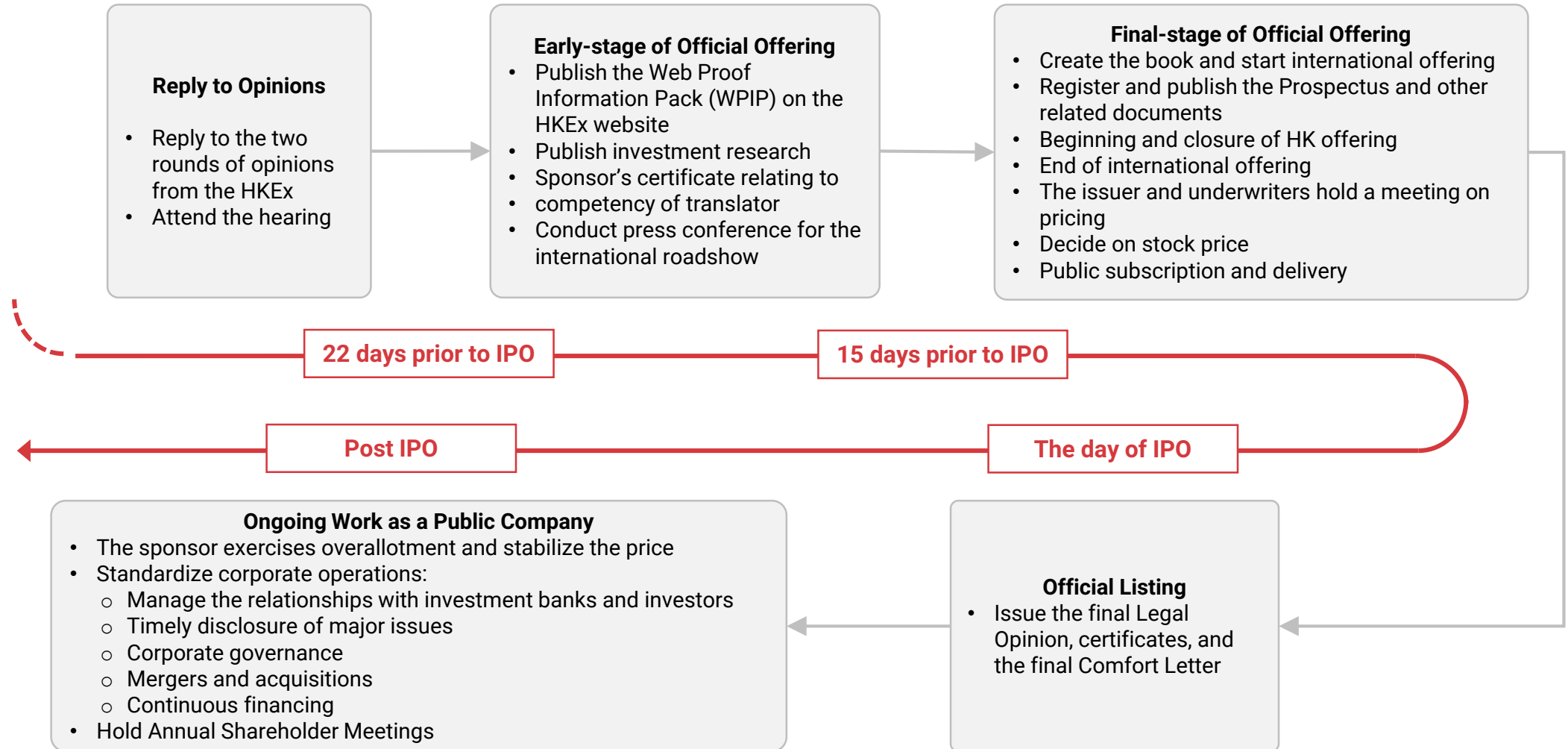
Main Board Financial Eligibility Tests

		Profit	Market Cap	Revenue	Cashflow	Other
Regular Companies (must meet at least one of the three tests)	Profit Test	Total HK\$50M for three years	At least HK\$500M			
	Market Cap/ Revenue Test		At least HK\$400M	HK\$500M for the most recent year		May accept less than three years of track record with sufficient management experience
	Market Cap/Revenue /Cashflow Test		At least HK\$200M	HK\$500M for the most recent year	Positive operating cashflow and total of HK\$100M in three years	
Pre-revenue/Pre-profit Biotech Companies			At least HK\$150M		Sufficient working capital that covers 125% of costs for at least 12 months	At least 12 month of R&D and has patents or applications or IPs related to core products; Receive meaningful investment from sophisticated investor 6 months before IPO

Hong Kong IPO Process and Milestones



Hong Kong IPO Process and Milestones (Cont.)



Ideal IPO Applicants

- Financial performance
 - Historical financial statements must comply with the positions and codes in Hong Kong Listing Rules and the Hong Kong Companies Ordinance, and must cover the three years prior to the date on the Prospectus.
 - Good financial performance and a solid balance sheet (not majorly consist of cash or short-term securities), should reflect healthy business growth, precise cost control, efficient capital expenditures and economies of scale.
- Potential customer base and market acceptance
 - The potential customer base is the key to an enterprise's invincibility. Applicants are able to drive performance by identifying potential customers, managing the potential clients' information, and gradually building a reliable image of the products by gathering target customers, and maximizing the value of advertising costs, which will eventually transform into market advantages.
- Market positioning, industry trends and growth prospects
 - The ideal applicant doesn't necessarily have a leading position, but should accurately describe how to shape the unique characteristic, culture and good image of the company based on the needs of the customers.
 - In terms of industry trends and growth prospects, applicants will also discuss different factors affecting industry trends to express confidence in the growth prospects of the company. E.g. changes in sales volume and cost structure, liquidity and capital sources, sources and use of cash flows, supplier relationships, employee compensation, unusual non-recurring expenses, significant environmental risks and other uncertainties, etc.

Ideal IPO Applicants

- Clear strategy and forecast memorandum
 - Although the profit forecast is confidential information, when the applicant discusses with the investment bank, it still needs to formulate a clear development strategy, business layout, and focuses on the growth/profit positioning, market and industry status, advantages, strategies, track record, business plan and macroeconomic data.
 - Also the company should create the forecast based on the cash flow (usually monthly forecast), the sufficiency of working capital, the main assumptions and sensitivity of the specific period to effectively support the performance management system.
- Experienced and successful management team
 - Applicants should have an experienced and stable management team, including a wealth of contacts and network resources, who's familiar with the business environment, and have a clear understanding of the future planning of corporate governance.
 - In addition, when accessing the management team, the Exchange will also assess the relevance of the executives' records for all management levels , and follow the usual practice of "allocating" their responsibilities according to their levels. The executives with high levels will have more responsibilities, in order to reflect the real responsibilities of a senior role.