Our experience

Accessing the Hong Kong capital market
Agenda

1. Our experience
2. Comparison of Singapore and Hong Kong
3. Listing methods and requirements
4. Key issues
5. How PwC can help
Our experience
PwC’s Cross Border IPO experience

Logistics

Consumer

Automotive

Retail

Entertainment

Entertainment

Mining

Mining
Our experience – why chose Hong Kong?

- Greater China nexus
- PRC shareholders
- Profile/growth
- Peer group
Comparison of Hong Kong and Singapore
### Singapore mainboard eligibility requirements

<table>
<thead>
<tr>
<th>Criteria 1</th>
<th>Criteria 2</th>
<th>Criteria 3</th>
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<tbody>
<tr>
<td><strong>Income</strong></td>
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</table>
| • Cumulative consolidated pre-tax profit of at least S$7.5m (US$5.6m) for the last 3 years  
• Pre-tax profit of at least S$1m (US$0.75m) in each of those 3 years | • Cumulative consolidated pre-tax profit of at least S$10m (US$7.5m) for the last 1 or 2 years | N/A |
| **Market capitalisation** | N/A | N/A | At least S$80m (US$60m) at the time of the initial public offering, based on the issue price and post invitation issued share capital |
| **Shareholding spread** | • Market capitalisation less than S$300m (US$225m) : 25% of enlarged share capital in public hands  
• Market capitalisation between S$300m and S$400m (US$300m) : 20% of enlarged share capital in public hands  
• Market capitalisation between S$400m and S$1bn (US$750m) : 15% of enlarged share capital in public hands  
• Market capitalisation more than S$1bn : 12% of enlarged share capital in public hands | |
| **No. of shareholders** | • At least 500 | |
| **Directors and management** | • At least 2 non-executive directors who are independent and free of any material business or financial connection with the issuer  
• A foreign issuer must have at least two independent directors, resident in Singapore  
• Audit committee is required | |
# Hong Kong mainboard eligibility requirements

<table>
<thead>
<tr>
<th>Criteria 1</th>
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<tbody>
<tr>
<td><strong>Profit/Revenue/Market capitalisation</strong></td>
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<tr>
<td>• Profit of at least HK$20 m (US$2.6 m) for the most recent financial year; and</td>
<td>• Market cap / Revenue / Cash flow test</td>
<td>• Market cap / Revenue test</td>
</tr>
<tr>
<td>• Profit of at least HK$30 m (US$3.8 m) for the 2 preceding financial years; and</td>
<td>• Market cap of at least HK$2 billion (US$256 m); and</td>
<td>• Market cap of at least HK$4 billion (US$513 m); and</td>
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<tr>
<td>• Market cap of at least HK$200 m (US$26 m)</td>
<td>• Revenue of at least HK$500 m (US$64 m) for the most recent financial year; and</td>
<td>• Revenue of at least HK$500 m (US$64 m) for the most recent financial year</td>
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<tr>
<td></td>
<td>• Positive operating cash flows of at least HK$ 100 m (US$13 m) in aggregate for 3 financial years</td>
<td></td>
</tr>
<tr>
<td><strong>Shareholding spread</strong></td>
<td>• Minimum public float of at least 25%; or 15 to 25% if market capitalisation is over HK$10 billion (eq. US$1.3 billion)</td>
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<tr>
<td><strong>No. of shareholders</strong></td>
<td>• At least 300</td>
<td></td>
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<tr>
<td><strong>Directors and management</strong></td>
<td>• Under substantially same management over the past 3 financial years</td>
<td>• Competing businesses of controlling shareholders or directors may be allowed - full disclosure is required</td>
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<td>• Ownership continuity and control for at least the most recent financial year</td>
<td>• Audit committee is required</td>
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<td></td>
<td>• Three independent non-executive directors, including one with accounting or related financial management expertise</td>
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## Comparison of Singapore and Hong Kong market structures

<table>
<thead>
<tr>
<th></th>
<th>Singapore Main Board</th>
<th>Hong Kong Main Board</th>
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</thead>
<tbody>
<tr>
<td><strong>Eligibility</strong></td>
<td>Same business and management throughout the period for which profit test applies</td>
<td>Ownership continuity and control for at least the most recent audited financial year; management continuity for at least three years</td>
</tr>
<tr>
<td><strong>Minimum market cap</strong></td>
<td>SG$150m (if profits) (US$107m) SG$300m (if no profits) (US$213m)</td>
<td>HK$200m (US$26m)</td>
</tr>
<tr>
<td><strong>Minimum public float</strong></td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Minimum retail offering</strong></td>
<td>-</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Filing of draft prospectus</strong></td>
<td>Private</td>
<td>Public</td>
</tr>
<tr>
<td><strong>Regulatory review</strong></td>
<td>SGX (and MAS)</td>
<td>Hong Kong Stock Exchange (and Securities and Futures Commission)</td>
</tr>
<tr>
<td><strong>Filing language</strong></td>
<td>English</td>
<td>English and Chinese</td>
</tr>
</tbody>
</table>
Listing methods and requirements
Listing Modes for Overseas Companies

- **Primary Listing**
  - Full compliance with Listing Rules
  - Can be in the form of Shares or Hong Kong Depositary Receipts (HDR)
  - Shares are traded in Hong Kong Dollars; HDR can be traded in Hong Kong Dollars or US Dollars
  - Financial statements (Accountant’s Report) be prepared in IFRS or HKFRS
  - Financial statements (Accountant’s Report) be audited by Hong Kong Certified Public Accountants (“HKCPA”)

- **Secondary Listing**
  - Similar requirements like primary listings, but reasonable waivers may be granted
  - Can be in the form of Shares or Hong Kong Depositary Receipts (HDR)
  - Shares are traded in Hong Kong Dollars; HDR can be traded in Hong Kong Dollars or US Dollars
  - Overseas companies should have a primary listing on an overseas exchange where the standards of shareholder protection are equivalent to those in Hong Kong
  - US GAAP is allowed
  - Presently, there are only a few secondary listings; there is an increasing trend, especially for foreign companies
  - Financial statements may be audited by international and reputable CPA, subject to HKEx’s waiver
Key Hong Kong IPO financial requirements

Audited financial track record
- 3 years (<6 months old)
- IFRS or HKFRS

Profit forecast
- Submitted to HKEx as part of review process
- Optional to include in prospectus

Working capital statement
- Covers 12 months from date of prospectus
- Must be reported on by reporting accountant

Internal control due diligence
- Sponsor/Company engage auditor to report on internal controls
- Significant piece of work
- All material issues must be addressed prior to filing listing application
Pros and cons for a secondary listing

Pros

• More flexible regime allows for waivers to be granted from certain listing rule requirements for issuers seeking a secondary listing
• Companies with an existing listing can file their listing application confidentially
• HKEx review comments are confidential
• Can use existing financial information with minimal or no additional audit work
• Can use Singapore FRS and Singapore auditing standards
• Similar rule-based regime with some other markets
• Lead time to market likely to be shorter

Cons

• Certain waivers only available to those companies without a nexus in Greater China
• May be required to complete dual primary listing rather than secondary listing
• Dual language reporting regime (English and Chinese)
• Sponsor regime requires detailed due diligence to be performed prior to submission of listing application
• Status as “secondary listing” at risk if level of trading in Hong Kong becomes greater than overseas
Our experience with SGX companies listing in Hong Kong

• Generally dual primary listings due to “China nexus”
• Usual practice is for listing by introduction which reduces execution risk
• Relatively straightforward process due to comparable auditing and accounting standards
• Still need to do due diligence even if already listed...
• Some SGX companies have gone private and then applied for listing on HKEx
Key issues
Key issues experienced by overseas companies

- Corporate reorganisation/shareholder structure
- Underestimating resources required for financial work streams
- Having sufficient and reliable information for MD&A
- Time required for sponsor due diligence
- Regulatory review process
Our recommendations

**Be prepared** – know and understand the requirements for listing and post listing for your chosen listing venue

**Contracts** – ensure your business has adequate supporting documentation to survive the due diligence process from regulators and underwriters

**Experience** – NEDs are crucial to success; get trusted, experienced NEDs onboard early

**Competitors** – know your competition, know what made their listings a success/failure
Our recommendations

Advisors – credible advisors are key to success in IPOs

Go the extra mile – adopt listing standards of compliance and financial management early to ensure smooth process and secure better valuations

Timing – be patient and approach the market at a good time for the market; don't push too early

Commitment – be prepared to spend time with international investors on an ongoing basis; shareholder dialogue is a key concern for international investors, especially for Asian companies
How PwC can help
How PwC can help

We can assist in a number of ways:

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<tr>
<th>Pre-float</th>
<th>Flotation</th>
<th>Post-float</th>
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<tr>
<td>• IPO diagnostic</td>
<td>• Assistance in performing independent due diligence (e.g. site visits)</td>
<td>• Management training and development</td>
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<tr>
<td>• Choice of market</td>
<td>• Assistance in preparation of financial forecasts and working capital models</td>
<td>• Corporate Governance effectiveness and controls optimisation</td>
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<tr>
<td>• Strategy &amp; investor story</td>
<td>• Regulatory issues</td>
<td>• Advice on managing reporting requirements of a listed company</td>
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<tr>
<td>• Listing eligibility considerations</td>
<td>• Assistance in establishing investor relations/ communications</td>
<td>• Improving transparency of information</td>
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<tr>
<td>• Transaction structuring, including tax &amp; legal</td>
<td>• Support with preparation of prospectus</td>
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<tr>
<td>• Financial reporting procedures and controls</td>
<td>• Project management</td>
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<tr>
<td>• Advice on complex accounting issues &amp; IFRS conversions</td>
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<tr>
<td>• Corporate Governance</td>
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<td>• Employee incentives</td>
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- **We bring a deep bench of expertise**, including accounting, tax, internal controls, sector expertise and local capital markets knowledge in Singapore and Hong Kong

- Taking the right preparatory steps now will greatly enhance the execution of the IPO and reduce execution risk
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