

23 March 2018

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central Hong Kong

By e-mail: response@hkex.com.hk

Dear Sirs,

Re: Consultation Paper for a Listing Regime for Companies from Emerging and Innovative Sectors

SQ Capital Group is a financial group engaged in advisory and venture investment for technology start-ups in Asia. We are writing in response to the SEHK's Consultation Paper for a Listing Regime for Companies from Emerging and Innovative Sectors of February 2018 (the "Consultation Paper") from the perspectives of venture investment and start up community. References are also made to the SEHK's Conclusions to the Concept Paper on a New Board published on 15 December 2017 (the "Concept Paper Conclusions"). Unless otherwise defined, all capitalized terms used herein shall have the same meaning as defined in the Consultation Paper and the Concept Paper Conclusions.

As stated in the Consultation Paper and the Concept Paper Conclusions, the purpose of SEHK's proposals set out therein are to expand the existing listing regime to facilitate and attract the listing of companies from emerging and innovative sectors and strengthen the overall competitiveness of Hong Kong's listing regime versus other major global listing venues.

While we are in support of the general direction advocated by the SEHK, we are of the view that the Consultation Paper has expanded the existing listing regime only for Biotech companies and issuers with WVR structures but not the other New Economy companies in particular those in the internet and technology sector (i.e.: Internet & Direct Marketing Retail, Internet Software & Services, IT Services, Software, Technology Hardware, Storage & Peripherals, etc) which constitute a significant part of the New Economy and foreseeably a substantive part of the IPO pipeline in the future.

Therefore, we have set out in this response our view and suggestions regarding the Financial Eligibility Tests for New Economy companies that are not Biotech companies.

SPECIAL FINANCIAL CHARACTERISTICS OF NEW ECONOMY COMPANIES

- Compared to traditional economy economies, New Economy companies face very different environment in terms of business dynamics, competition, market demand, regulation, etc and hence in many cases New Economy companies must sacrifice short-term profitability in order to build competitiveness and hence future profitability on the long run. This is particularly common in sectors such as: e-commerce, fintech, consumer applications, media and entertainment platform, etc that require significant and continuous investment for user base, consumer behaviour, content/intellectual property, etc. and hence often result in operating loss during the fast-growing stage.
- As a result, historical financial benchmarks that are applicable to traditional economy companies can no longer reflect the investment values, competitiveness and sustainability of New Economy companies.
- In evaluating and valuing New Economy companies, investors would focus on their future profitability potentials instead of historical financial performance by assessing parameters like: market share, user base, proprietary technology, etc that can more accurately reflect their competitiveness and sustainability in the New Economy market.

COMPARISON OF FINANCIAL ELIGIBILITY - SEHK AND NASDAQ

- New Economy listing applicants that are not Biotech companies and do not have WVR structures must fulfil one of the Financial Eligibility Tests under Rule 8.05 of the Listing Rules for IPO on the Main Board of SEHK.
- Compared to SEHK, Nasdaq, Inc. (**Nasdaq**) being the most popular listing venue for New Economy companies has financial eligibility criteria for listing that are more flexible in catering for special characteristics of New Economy companies.
- The Nasdaq Stock Market has three distinctive tiers: The Nasdaq Global Select Market[®], The Nasdaq Global Market[®] and The Nasdaq Capital Market[®]. While Nasdaq Global Select Market[®] has more stringent financial eligibility requirements, the Nasdaq Global Market[®] and Nasdaq Capital Market[®] have more flexible financial eligibility requirements in attracting listing of New Economy companies, particularly those from Asia. In 2017, the number of Chinese companies that have IPO on The Nasdaq Global Market[®] and The Nasdaq Capital Market[®] are 8 and 14 respectively whereas no Chinese company was listed on The Nasdaq Global Select Market[®] in 2017.
- As the Nasdaq Capital Market[®] has much lower listing eligibility than Nasdaq Global Market[®] which is the most popular tier for quality Chinese companies, this section would focus on comparing the Nasdaq Global Market[®] and the SEHK Main Board.

- As shown in the detailed comparison under Appendix 1, the financial eligibility of the Nasdaq Global Market® are more relaxed and tailored for New Economy companies as compared to the Financial Eligibility Test of SEHK:

1) Profit/Income requirement

- *Nasdaq Global Market® - Income Standard:* listing applicants must fulfil: (1) Pre-Tax Earnings of not less than US\$1 million (in latest fiscal year or in two of last three fiscal years); (2) Market value of publicly held shares of not less than US\$8 million; and (3) Stockholder's Equity of not less than US\$15 million.
- *SEHK Main Board - Profit test:* listing applicants must fulfil: (1) net profits of not less than HK\$30 million (~US\$3.9 million) in first two financial years and HK\$20 million (~US\$2.6 million) in most recent financial year; and (2) market value of publicly held shares of not less than HK\$125 million (~US\$16 million).

Comparison: SEHK has much higher requirement for profits as well as Market value of publicly held shares compared to Nasdaq Global Market®.

2) Market capitalization and Revenue requirement

- *Nasdaq Global Market® - Market Value Standard:* listing applicants must fulfil: (1) market value of Listing Securities (market capitalization) of not less than US\$75 million and (2) Market value of publicly held shares of not less than US\$20 million.
- *Nasdaq Global Market® - Total Assets/Total Revenue Standard:* listing applicants must fulfil: (1) Total Revenue of not less than US\$75 million and Total Assets of not less than US\$75 million (in latest fiscal year or in two of last three fiscal years); and (2) Market value of publicly held shares of not less than US\$20 million.
- *SEHK Main Board - Market Capitalization/Revenue test:* listing applicants must fulfil: (1) market capitalization of not less than HK\$4 billion (~US\$513 million); and (2) revenue of not less than HK\$500 million (~US\$64 million) for most recent financial year.
- *SEHK Main Board - Revenue/Cash flow test:* listing applicants must fulfil: (1) market capitalization of not less than HK\$2 billion (~US\$256 million); (2) revenue of not less than HK\$500 million (~US\$64 million) for most recent financial year; and (3) aggregate cash flow from operating activities of not less than HK\$100 million (~US\$12.8 million) for the last three financial years.

Comparison:

- a. Nasdaq Global Market's Market Value Standard has no requirement on the revenue or the cash flow. Also, the market capitalization requirement is much lower than SEHK's Market Capitalization/Revenue test and the Revenue/ Cash Flow test.

- b. Nasdaq Global Market's Total Assets/Total Revenue Standard has slightly higher requirement on revenue compared to SEHK's Market Capitalization/Revenue test and the Revenue/Cash flow test. However, Nasdaq Global Market's Total Assets/Total Revenue Standard has no requirement on the market capitalization but only require market value of publicly held shares to be not less than US\$20m.
- c. Nasdaq Global Market's Total Assets/Total Revenue Standard has no requirement on cash flow compared to SEHK's Revenue/Cash flow test.
- As shown in the detailed comparison under Appendix 2, the financial eligibility of the Nasdaq Capital Market® are more relaxed with lower requirement as compared to the Financial Eligibility Test of SEHK.
 - Compared to SEHK, the financial eligibility of both the Nasdaq Global Market® and Nasdaq Capital Market® are more relaxed and tailored for New Economy companies with business dynamics and competition environment different from traditional economy companies which partly explains why Nasdaq Global Market® and Nasdaq Capital Market® are becoming one of the most popular listing venue for New Economy companies from the Greater China.
 - Set out below is a summary of major New Economy companies in Greater China that were listed on Nasdaq Global Market® and Nasdaq Capital Market® in 2017:

Company name	Country	Industry	Market cap	Revenue*	Net profits (loss)*
LexinFintech Holdings Ltd.	China	Fintech	US\$2.62B	US\$652.1M	2016: (RMB118M) 2015: (RMB310m)
RISE Education Cayman Ltd	China	Education	US\$1.87B	US\$104.9M	2016: RMB51M 2015: (RMB26m) 2014: (RMB65m)
Zai Lab Limited	China	Biopharmaceutical	US\$1.04B	Nil	2016: (US\$37.5M) 2015: (US\$18.0M)
China Internet Nationwide Financial Services Inc.	China	Fintech	US\$712.01M	US\$15.8M	2016: US\$13.9M 2015: US\$ 5.6M 2014: (US\$ 0.2M)
Hexindai Inc.	China	Fintech	US\$586.05M	US\$22.9M	2017: US\$8.6M 2016: US\$3.5M 2015: (US\$0.4M)
Secoo Holding Limited	China	E-commerce	US\$576.89M	US\$378.6M	2016: (RMB45M) 2015: (RMB222M)
iClick Interactive Asia Group Limited	Hong Kong	Computer Software	US\$429.46M	US\$95.4M	2016: (US\$27.3M) 2015: (US\$39.7M)

*most recent financial year(s) before IPO

Source: Nasdaq website, company prospectus

COMPARISON OF FINANCIAL ELIGIBILITY - SEHK AND SGX

- Singapore Exchange (SGX) has been viewed as a competitor of SEHK in attracting listing of New Economy companies and has been active in promulgating policy reform in this regard.
- As shown in the detailed comparison under Appendix 3, the financial eligibility of the SGX are more relaxed with lower requirement than the SEHK in catering for special characteristics of New Economy companies:

Profit/Income and Market Capitalization requirement

- *SGX – Criterion 1:* listing applicants must fulfil: Minimum consolidated pre-tax profit of at least S\$30 million for the latest financial year
- *SGX – Criterion 2:* listing applicants must fulfil: (1) Profitable in the latest financial year; and (2) has a market capitalization of not less than S\$150 million
- *SGX – Criterion 3:* listing applicants must fulfil: (1) Operating revenue in the latest completed financial year; and (2) a market capitalization of not less than S\$300 million
- *SEHK Main Board - Profit test:* listing applicants must fulfil: (1) net profits of not less than HK\$30 million (~S\$5.0 million) in first two financial years and HK\$20 million (~S\$3.4 million) in most recent financial year
- *SEHK Main Board - Market Capitalization/Revenue test:* listing applicants must fulfil: (1) market capitalization of not less than HK\$4 billion (~S\$670 million); and (2) revenue of not less than HK\$500 million (~S\$83.8 million) for most recent financial year.
- *SEHK Main Board - Revenue/Cash flow test:* listing applicants must fulfil: (1) market capitalization of not less than HK\$2 billion (~S\$335 million); (2) revenue of not less than HK\$500 million (~S\$83.8 million) for most recent financial year; and (3) aggregate cash flow from operating activities of not less than HK\$100 million (~S\$16.8 million) for the last three financial years.

Comparison:

- (a) **Profit:** SGX Criterion 1 has higher profit requirement than SEHK Profit test, but SGX Criterion 2 has much lower requirement which only requires listing applicants to be profitable in the latest financial year and has a market capitalization of not less than S\$150 million.
- (b) **Revenue:** SGX Criterion 3 only requires listing applicant to have operating revenue in the latest completed financial year and a market capitalization of not less than S\$300 million. Comparatively, SEHK Main Board-Market Capitalization/Revenue test has much higher requirement on revenue and market capitalization: revenue of not less than ~S\$83.8 million for most recent financial year and market capitalization of not less than ~S\$670 million.

- (c) **Cash flow:** SEHK Main Board - Revenue/Cash flow test requires: (1) revenue of not less than ~S\$83.8 million for most recent financial year; (2) market capitalization of not less than ~S\$335 million; and (3) aggregate cash flow from operating activities of not less than ~S\$16.8 million for the last three financial years. SGX Criterion 3 has similar level of requirement on market capitalization but has no requirement on cash flow and only requires listing applicant to have operating revenue in the latest completed financial year.
- Compared to SEHK, the financial eligibility of SGX is more relaxed and tailored for New Economy companies with business dynamics and competition environment different from traditional economy companies.

SUGGESTIONS

- While the Consultation Paper has initiated the first step towards encouraging the listing of Biotech companies being an important category of the New Economy, we think that the effort should be extended to other quality New Economy companies (in particular: Internet & Direct Marketing Retail, Internet Software & Services, IT Services, Software, Technology Hardware, etc.) that represents a significant part of the New Economy and start-up ecosystem, but cannot fulfil the Financial Eligibility Tests that were formulated in the past mainly for traditional economy companies.
- Nasdaq is a good reference which has listing eligibility criteria comparatively more cater for the New Economy and internet/technology companies. This in turn attracts many renowned internet/technology companies to list on Nasdaq in recent years including: Amazon, Google, Facebook, etc.
- By further modifying the listing eligibility criteria to cater for the New Economy and internet/technology companies, SEHK can serve not only as the listing platform of “unicorns” or sizable New Economy companies but can potentially also act as the listing platform for fast growing New Economy companies with huge potentials. A good example would be Amazon, which was not sizable with revenue of US\$15.7 million and net loss of US\$5.8 million at its IPO in 1997, has now become the 2nd largest market capitalization listed company in United States.
- We suggest SEHK to conduct a holistic review of the Financial Eligibility Tests under the Listing Rules to cater to the special circumstances and mode of operations of New Economy companies in addition to Biotech companies. In this regard, we are of the view that the approach adopted by the SEHK for Biotech companies (the new Chapter 18A) and for mining companies (Chapter 18) are good examples of how this could be achieved. We also suggest SEHK to engage participants in the New Economy space including: investors, start-ups (potential listing applicants) and professional intermediaries, etc. in the process of formulating the rules such that the needs of the New Economy space could be fully considered and addressed.

Overall, we support SEHK in reviewing and modifying the listing regime to attract the listing of more quality New Economy companies. We hope that our suggestions above can contribute in achieving this. If you have any questions or would like to discuss any matters further, please do not hesitate to contact Mr. Kenneth Chung at [REDACTED]

Thank you for your attention.

Yours faithfully,

SQ Capital Group Limited

APPENDIX 1 - Comparison of Financial eligibility for SEHK and Nasdaq Global Market®

	SEHK			Nasdaq Global Market®			
	Profit test	Revenue/ Cash Flow test	Market Capitalization /Revenue test	Income Standard	Equity Standard	Market value Standard	Total Assets/ Total Revenue Standard
Profits	<ul style="list-style-type: none"> • Net profits ≥ HK\$30m total in first two financial years; and • Net profits ≥ HK\$20m in most recent financial year 			Pre-Tax Earnings ≥ US\$1m (in latest fiscal year or in two of last three fiscal years)			
Revenue		≥ HK\$500m for most recent financial year	≥ HK\$500m for most recent financial year				≥ US\$75m Total Revenue and ≥ US\$75m Total Assets (in latest fiscal year or in two of last three fiscal years)
Cashflows		≥ HK\$100m aggregate cash flow from operating activities for the last three financial years					
Market capitalisation		≥ HK\$2 billion market capitalisation	≥ HK\$4 billion market capitalisation			≥ US\$75m market value of Listing Securities	
Market value of publicly held shares	≥ HK\$125 million	≥ HK\$125 million	≥ HK\$125 million	≥ US\$8m	≥ US\$18m	≥ US\$20m	≥ US\$20m
Shareholder's Equity				≥ US\$15m Stockholder's Equity	≥ US\$30m Stockholder's Equity		

Source:

(1) Nasdaq, Inc. website

(2) Hong Kong Exchanges and Clearing Limited website

APPENDIX 2 - Comparison of Financial eligibility for SEHK and The Nasdaq Capital Market®

	SEHK			Nasdaq Capital Market®		
	Profit test	Revenue/ Cash Flow test	Market Capitalization /Revenue test	Equity Standard	Market Value of Listed Securities Standard	Net Income Standard
Profits	<ul style="list-style-type: none"> • Net profits ≥ HK\$30m total in first two financial years; and • Net profits ≥ HK\$20m in most recent financial year 					Net Income from Continuing Operations ≥ US\$750,000 (in the latest fiscal year or in two of the last three fiscal years)
Revenue		≥ HK\$500m for most recent financial year	≥ HK\$500m for most recent financial year			
Cashflows		≥ HK\$100m aggregate cash flow from operating activities for the last three financial years				
Market capitalisation		≥ HK\$2 billion market capitalisation	≥ HK\$4 billion market capitalisation		≥ US\$50m market value of Listing Securities	
Market value of publicly held shares	≥ HK\$125 million	≥ HK\$125 million	≥ HK\$125 million	≥ US\$15m	≥ US\$15m	≥ US\$5m
Shareholder's Equity				≥ US\$5m Stockholder's Equity	≥ US\$4m Stockholder's Equity	≥ US\$4m Stockholder's Equity

Source:

(1) Nasdaq, Inc. website

(2) Hong Kong Exchanges and Clearing Limited website

APPENDIX 3 - Comparison of Financial eligibility for SEHK and SGX

	SEHK			SGX		
	Profit test	Revenue/ Cash Flow test	Market Capitalization /Revenue test	Criterion 1	Criterion 2	Criterion 3
Profits	<ul style="list-style-type: none"> • Net profits \geq HK\$30m total in first two financial years; and • Net profits \geq HK\$20m in most recent financial year 			Minimum consolidated pre-tax profit of at least S\$30 million for the latest financial year	Profitable in the latest financial year	Operating revenue in the latest completed financial year
Revenue		\geq HK\$500m for most recent financial year	\geq HK\$500m for most recent financial year			
Cashflows		\geq HK\$100m aggregate cash flow from operating activities for the last three financial years				
Market capitalisation		\geq HK\$2 billion market capitalisation	\geq HK\$4 billion market capitalisation		Market capitalization of not less than S\$150 million based on the issue price and post-invitation issued share capital	Market capitalization of not less than S\$300 million based on the issue price and post-invitation issued share capital
Market value of publicly held shares	\geq HK\$125 million	\geq HK\$125 million	\geq HK\$125 million			
Shareholder's Equity						

Source:

(1) Singapore Exchange Ltd. Website

(2) Hong Kong Exchanges and Clearing Limited website