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March 21, 2018

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

Re: Emerging and Innovative Companies CP – Biotech Companies Chapter 18A ONLY

Team HKEX,

Thanks in advance for providing the opportunity to provide responses to your "Consultation Paper: A Listing Regime for Companies from Emerging and Innovative Sectors" published in February 2018 ("CP Feb 2018"). We applaud your efforts to proactively and deliberately address the issue you have identified: namely that under the current Financial Eligibility Tests, high growth and innovation focused companies in the Biotech sector would be precluded from listing on the Exchange. We believe upon implementation, these new rules would provide the basis for a new and preferred public market in the Exchange for the rapidly growing biotechnology ecosystem in Greater China. By its very nature, Biotech companies with no revenues are starved for capital to fuel their respective innovation, and it is very well established through the U.S. capital markets that a strong, robust and specialized public market can exist to evaluate and fund these different opportunities in the biopharmaceutical space. Getting the rules right though is critical in ensuring that the HKEX's efforts are not wasted, and accordingly, we have devoted significant attention and time in engaging with, and providing commentary to the HKEX from a biopharmaceutical industry and capital markets perspective.

Our comments are set forth below:

Clarifications and Confirmations

1) **Pipeline.** In CP Feb 2018, Executive Summary 8(f), the guidelines state: *"if the applicant is engaged in the R&D of pharmaceutical (small molecule drugs) products or biologic products, it must demonstrate that it has a pipeline of those potential products; and"*

   We note 74(f) repeats the same guideline, but the proposed Amendments to the Listing Rules actually do not specifically reference a "pipeline" requirement. In reading this "pipeline" guideline, we believe that the controlling requirement is stated in 8(a), 74(a) and 75. Accordingly, for a Biotech company focused in biopharmaceutical R&D, the "pipeline" requirement would be satisfied so long as it has one Core Product that has passed Phase I trial and has received no objection from the Relevant Authority to proceed with Phase II trial. The stage of development for any remaining products in development would be irrelevant, so long as such applicant had other programs in development in its pipeline. Please confirm our understanding as set forth above.

2) **Track Record / Audited Financials.** In CP Feb 2018 guideline 81, and Proposed Amendment to the Listing Rules 18A.03(3), it states: *"[the Applicant must] have been in operation in its current line of business for at least two financial years prior to listing under substantially the same management."*

   Accordingly, we would assume that audited financials of only the latest 2 fiscal years is required rather than the historical 3 fiscal year audited financial statement requirement. Please confirm our understanding as set forth above.

Recommendation

3) **Cornerstone Investors and Minimum Percentage Held by Public.** In CP Feb 2018 Executive Summary 13, *"The Exchange proposes that shares subscribed by cornerstone investors should not count towards determining whether a Biotech Company has met the minimum initial public float requirement at the time of listing and at all times prior to the expiry of the six-month lock-up period applicable to cornerstone investors from the date of listing. The proposed restriction on cornerstone investors will help reduce the influence of pre-arranged deals on the book-building process and will also help ensure that the pricing process for the IPOs of such companies is as market-driven as possible."*

   Although we fully appreciate the HKEX's concerns regarding potential undue influence by cornerstone investors in an IPO, we firmly believe the participation of sophisticated cornerstone investor(s) is extremely important for Biotech IPOs and should be fully encouraged. Investing in biotechnology companies requires specialized experience and often times specialized investors provide the industry conviction needed by less sophisticated investors and for a successful transaction to occur. In our view, this restriction to not include the cornerstone stake at an IPO for purposes of calculating the minimum initial public float requirement coupled with the need to maintain at least 25% of the outstanding shares with the public under Listing Rule 8.08(1)(a) may result in discouraging Biotech applicants from including cornerstone investors, and forcing Biotech applicants to issue more shares than the Biotech investing community can bear at an IPO.

   Taking the U.S. Biotech market as a precedent, 27 of the 29[1] Biotech IPOs in 2017 priced with insider support. In addition, the average deal size for each of 2015, 2016 and 2017 were US$117m, US$89m and US$115m, respectively. The average percentage of company sold at the IPO were 29%, 26% and 27%, respectively, for the same periods. Key observations drawn from this information would indicate that Biotech companies are naturally inclined to raise as much as they can and with insider participation. However, it also shows that there are very few large transactions: in 2017, out of 34

[1] Excluding 5 transactions that were already listed in another venue.

IPOs, only 4 IPOs raised more than US$150m in aggregate proceeds. Accordingly, if the HKEX requirements of a minimum float of 25% of the outstanding shares needed to be held by the public, excluding any shares taken by a cornerstone investor, then for a US$1 billion market cap Biotech IPO in HKEX, a minimum of $250m would be required to be raised, excluding the amount allocated to a cornerstone investor. Such a transaction (excluding cornerstone investment) would be the second largest fundraising in the U.S. among Biotech IPOs executed in 2017. Also, for many Biotech applicants, such a large amount is simply not necessary and would be heavily dilutive to the shareholders of the company in advance of near-term milestone events that could lead to significant increases in valuation.

The underlying reason for why offering sizes for Biotech IPOs historically have been small (averaging around US$100m) is that Biotech IPOs in the U.S. have traditionally involved the participation of a wide and diverse group of specialist and experienced biotechnology investors, each taking a rather small stake. Because of the high risk embedded within relatively early stage biotechnology companies, Biotech investors like to participate in numerous offerings but at relatively small amounts at each Biotech IPO. In other words, Biotech investors like to build "a portfolio with as many shots on goal." As each invested company executes on its plan post-listing and advances development of its lead candidate(s), then such Biotech investors would build on the positions they established at the IPO by buying new shares from the market. In addition, for an average Biotechnology IPO that raises US$100m, the gross amount of orders / demand required to price at the mid-point or at the top of the IPO offering price range would need to be somewhere in the range of 6x-10x of the actual amount raised. Accordingly, there would need to be up to US$1.0b of investor orders / demand (~10x) required in order to price at the top of the range to raise US$100m in an IPO. Using the example above of a company with a US$1 billion market cap, and a required US$250m minimum offering per current HKEX proposed rules, up to US$2.5b of total orders / demand would be required to price at the top of the range. From the U.S. Biotech industry records, such offerings are simply not normal and could place an unnecessary burden on the larger, later stage Biotechnology companies looking to list on the HKEX.

Accordingly, our recommendation would be that for Biotech IPOs seeking listing pursuant to Chapter 18A of the Proposed Listing Rules of HKEX, a minimum issuance of the lower of a) US$150m (excluding shares allocated to Cornerstone Investors) or b) 25% of the Applicants' outstanding shares are held by the public after the IPO, would be required. We believe US$150m would be sufficient proceeds to maintain liquidity in any stock post IPO, while not placing undue stress on new Biotech applicants to find more demand than has been customarily available in biotechnology IPOs in the U.S.

Thanks again for the opportunity to provide our comments and we are available for any questions or further discussion.

Best, [redacted]

George Lin
Hua Medicine
EVP & Chief Financial Officer

Cc: Dr. Li Chen