

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

March 21, 2018

Re: Emerging and Innovative Companies CP

We refer to the Stock Exchange's consultation paper on the proposed new listing regime for emerging and innovative companies published on 23 Feb 2018 (the "Consultation Paper").

In principle, we are supportive of the Consultation Paper proposals regarding Chapter 3: Issuers with WVR Structures and Chapter 4: Secondary Listing of Qualifying Issuers. We are also supportive of the Consultation Paper proposals regarding Chapter 2: Biotech Companies. However, we have the following comments on this chapter:

Section 74(a): "The Biotech Company must have developed at least one Core Product beyond the concept stage."

1. We note that products that have passed Phase I trials still face long odds to approval. According to a Biomedtracker report and other case studies, almost 85 percent of drugs that have passed Phase I will ultimately not be approved, and the failure rate for phase II trials alone is 69 percent.¹ We are concerned that retail investors may underestimate the probability of failure and will be unprepared for the likelihood of complete loss in value of these listed companies. Thus, we recommend the following:
 - a. Require a prominently displayed warning in the IPO prospectus, stating that there is substantial risk of major loss in the value of the shares,
 - b. Require prominently displayed information on the failure rate of drug development trials in the IPO prospectus,
 - c. All underwriters, securities brokers and other agents must warn investors of the risks of investing in companies listing under this Chapter.

Section 74(g): "It must have previously received meaningful third party investment (being more than just a token investment) from at least one Sophisticated Investor at least six months before the date of the proposed listing (which must remain at IPO)."

2. A Sophisticated Investor is currently defined as "An investor that the Exchange considers to be sophisticated by reference to factors such as net assets or assets under management, relevant investment experience, and the investor's knowledge and expertise in the relevant field".¹¹

We believe that the current definition is not specific enough. This requirement should clearly list out the criteria under which an investor would qualify as a Sophisticated Investor. Possible factors include, but are not limited to:

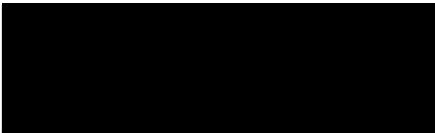
- a. Being a biotechnology fund, institutional investor, listed company or entity licensed by the Securities and Futures Commission or equivalent internationally recognised bodies,
 - b. Having an investment size that exceeds a minimum amount, such as HK\$40 million or HK\$8 million, similar to the Securities and Futures (Professional Investor) Rules Cap. 571D for determining Professional Investor eligibility.
3. We recommend that the Exchange provides more clarity to Listing Candidates on the qualifications required of Sophisticated Investors in order to enhance the listing process and improve market functioning.

Section 78: "Applicants for listing under the Biotech chapter must have a minimum expected market capitalisation at the time of listing on the Exchange of HK\$1.5 billion."

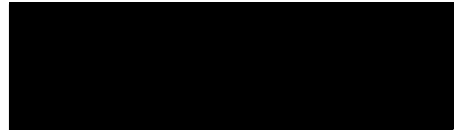
4. According to our proprietary research and discussion with market participants, we believe that the initial round of listing candidates should be able to meet this requirement. However, we believe that future issuers may find this requirement difficult to satisfy. This could become a quality concern, as potential issuers may be tempted to inflate their valuation in order to meet the market capitalisation requirement. We recommend that the Exchange consider reviewing the HK\$1.5 billion cut-off after a reasonable amount of time.

Should there be any further questions, please do not hesitate to contact us using the contact information below. Thank you for your consideration.

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¹ Clinical Development Success Rates 2006-2015, Blomedtracker, <http://bit.ly/1UfCn15>.

² Page 5 of the Consultation Paper, "Sophisticated Investor".