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23 March 2018

BY HAND AND BY EMAIL

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

Dear Sirs,

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

Ernst & Young is pleased to respond in this letter to the request of Hong Kong Exchanges and Clearing Limited for feedback on the captioned consultation paper. Terms used in this letter shall have the same meanings as defined in the consultation paper.

As stated in our response to the New Board Concept Paper, we are supportive of the HKEx's objectives to widen access to capital markets by opening up to a more diverse range of companies, so as to better serve investors as well as potential issuers, and to enhance Hong Kong's competitiveness as a global financial centre. We are of the view that any proposal must be considered in the context of effective investor protection and robust corporate governance standards.

We would like to share with you the following observations and comments on the consultation paper:

Biotech companies

We welcome the HKEx's proposal to diversify the Hong Kong markets by attracting more quality high-growth companies, including pre-profit companies, from emerging and innovative sectors to list in Hong Kong. We note that at this stage the Exchange proposes to only list pre-revenue/pre-profit companies (which failed the eligibility tests in Main Board Rule 8.05) from the Biotech sector which can meet the Exchange's suitability tests. Regulation by internationally recognised bodies such as the FDA and the stages involved in their approval process provide an indication as to the nature and development progress of Biotech Companies in the absence of traditional indicators such as revenue and profit. We agree that this provides investors with a frame of reference to form their own judgment about a Biotech Company's value.

We agree that an applicant for listing under the Biotech chapter must meet enhanced working capital requirements to reduce the risk that it is unable to meet its operational expenses after listing. Under the proposed Rule 18A.03(4), the applicant will be required to have available working capital to cover at least 125% of the group's costs for at least the next 12 months (after taking into account the proceeds of the new applicant's initial listing). We observe that this proposed rule is similar to Rule 18.03(4) relating to the 125% working capital requirement for mineral companies. We also note that Rule 18.03(5) requires a mineral company to:

> "ensure that its working capital statement in the listing document under Listing Rule 8.21A states that it has available sufficient working capital for 125% of the group's present requirements, that is for at least 12 months from the date of its listing document."

All listing applicants must comply with Rule 8.21A and Paragraph 36 of Appendix 1A and include a working capital statement in their listing documents, stating that the group has available sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of its listing document. The Note to Rule 8.21A states that Rule 8.21A is modified for a new applicant mineral company which must comply with the requirements of Listing Rules 18.03(4) and 18.03(5). The Note to Paragraph 36 of Appendix 1A also states that in the case of a mineral company, the listing document must include a statement by the directors that in their opinion the issuer has available sufficient working capital for 125% of the group's present requirements.

There is no equivalent rule on the disclosure requirement for a Biotech Company in the proposed Chapter 18A, nor is there any proposed modifications to Rule 8.21A and Paragraph 36 of Appendix 1A applicable to a Biotech Company. We would like to clarify whether it suffices for a Biotech Company to make a working capital statement without specifically referring to 125%; and if not, whether specific disclosure requirements need to be included.

Issuers with WVR structures

We agree that the HKEx should ensure that its listing regulations are competitive amongst its international peers by permitting the listing of companies with WVR structures, and that such permission is restricted to new listing applicants only. We note that the Exchange has proposed to put in place a number of safeguards to ensure that the principle of sufficient investor protection is not compromised.

As set out in paragraph 24 of the consultation paper, the Exchange will require a WVR structure to be attached to a specific class (or classes) of shares. This class must be unlisted (proposed Rule 8A.08) and the WVRs attached to them must confer to a beneficiary only enhanced voting power on resolutions tabled at the issuer's general meetings (other than matters required to be decided on a one-share, one-vote basis as set out in the proposed Rule 8A.25). The rights

attached to WVR shares must be the same in all other respects to those attached to the issuer's ordinary shares other than with regards to voting rights (proposed Rule 8A.07).

The proposed Rule 8A.41 requires an issuer with a WVR structure to disclose any dilution impact of a potential conversion of WVR shares into ordinary shares in its listing documents and in its interim and annual reports. It would be helpful if the Exchange could provide guidance as to the nature of the likely dilution impact which will result from a conversion of WVR shares into ordinary shares (e.g., dilution from whose perspective, any need for negative statement regarding dilution impact on economic interests/voting rights, impact arising from an increase in supply of listed ordinary shares), and the expected format of any quantitative disclosure which the Exchange deems necessary.

Should you have any questions on the above comments, please do not hesitate to contact our Professional Practice Partner in Hong Kong, Mr. Paul Hebditch, on [redacted]

Yours faithfully,

Ernst & Young

Certified Public Accountants
Hong Kong