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Dear Sirs

Emerging and innovative Companies CP

Background

We refer to the captioned and set out below our comments. In summary, we agree with the objective of facilitating listing of companies from innovative and emerging sectors on the Main Board, which as we observed, is a result of market consensus built over the last couple of years. There is a need for our regime to be able to adapt through evolving interpretation of listing suitability and to meet with the changing nature of the market.

Biotech Companies

We agree with singling out a regime for Biotech Companies in the proposed Chapter 18A because, in theory, the existence of supposedly “authoritative” external milestones (i.e. endorsement or non-objection by the Competent Authority) may help investors *map out* (but not mitigate) the risks of investment in these proposed “B” stocks.

Against the above premises, we are proposing some suggestions and thoughts with the view to improving the new Chapter 18A:

1. Unlike the mineral companies regime in Chapter 18, the Competent Authority proposed in Chapter 18A is only analogous but not equivalent to Chapter 18's Competent Person. Competent Authority is not accountable to investors or the listing regulators. Investors' reliance on milestones set with reference to Competent Authority remains at the investors' own risk.
 - How the new Chapter 18A can facilitate investors and listing regulators better understand such risk should remain an overriding objective.

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2. External validation by Sophisticated Investor (Consultation paragraph 74(g)) should become an important feature behind the new Chapter 18A. However, the gist of paragraph 74(g) appears to be deliberately left out in the proposed Chapter 18A.
 - We recommend that Consultation paragraph 74(g) be written into the rules.
3. Though investors are in a way buying and investing on the back of Sophisticated Investor's or Parentco's R&D capability, they owe no duty of care to investors on the successful commercialisation of the Biotech Company's products.
 - Such disclaimer should be recognised and acknowledged in a fashion similar to the Exchange's statement in Consultation paragraph 69.
4. Enhanced disclosure on the investing track record of relevant Sophisticated Investor (or the fund managers behind) in a fashion similar to Consultation paragraphs 67 and 68 should be considered, especially if such Sophisticated Investor is exiting before the successful commercialisation of a Biotech Company's products.
5. Sponsors are not endorser of suitability but our regime remains that sponsorship is relevant. We suggest the Exchange consider setting out its expectation (track record disclosure or experience) on sponsors for Biotech Companies.

Issuers with WVR structures

We agree with Consultation paragraph 97 on the rationale for allowing WVR structures. We are proposing some suggestions and thoughts with the view to improving the new Chapter 8A:

6. We propose to have Consultation paragraph 97 written into the Introduction of Chapter 8A as the overriding objective for applicants putting in place WVR structures. As such, only those structures enabling key individuals (being WVR beneficiaries) to have 'control' over the company (not just a 'bigger say') should be considered as suitable for listing.
7. We propose the Exchange to clarify that it will expect the level of voting control exercisable by WVR beneficiaries to be more than 50% as we cannot see any good reason for allowing a WVR structure with less than 50% weighted voting rights.
8. We agree with the observation in Consultation paragraphs 98 to 100 about the risks of WVR holders unfairly extracting benefits for themselves. We propose "the amount and the extent of connected transactions and future connected transactions" be one of the factors when the Exchange considers whether a particular WVR structure is acceptable.
9. For the purpose of WVR-related definitions, we propose the Exchange to clarify that a "class" refers to a class of shares created as such by a company's constitutional document as opposed to private voting arrangements among shareholders.
10. We note in Consultation paragraph 155 a reference to a listed issuer (whose two classes of shares appear to have the same voting rights but different dividend rights) as having a WVR structure. Please clarify the WVR structure definitions in view of such interpretation.

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Proposed Chapter 19C

We note and agree with the commercial objectives underlying the creation of a Grandfathered Greater China Issuer class of companies.

11. We have only one comment amidst the above which relates to the proposed Rule 19C.13 as follows:

- Rule 19C.12 should fall away as Rule 19C.11 does, to avoid permanent exemptions of implementing WVR safeguards for Grandfathered Greater China Issuers.

A level playing field for all remains a precious feature of this market.

Please contact our [REDACTED] should you have any queries on the above.

Yours faithfully


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