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23rd March 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

Dear Madam / Sir

We are pleased to provide our comments and thoughts on your Consultation Paper in relation to 'A Listing Regime for Companies from Emerging and Innovative Sectors'. Capitalized terms have the same meaning as the Consultation Paper released in February 2018.

About us

Nan Fung Group has been part of Hong Kong for more than 60 years and is one of the largest privately-owned conglomerates in the city.

Nan Fung Life Sciences ("NFLS"), part of Nan Fung Group, is a global investment platform focusing on life sciences. Leveraging on the Group's strong capital base and long-term commitment to the area, the company aims to become an ideal partner for scientists, entrepreneurs, corporations and investors in the life sciences space. Nan Fung Group has committed US\$1.5 billion to investments via NFLS.

NFLS currently has an on-the-ground presence in Hong Kong, China and the US. NFLS aims to make investments across different development stages and covers the full spectrum of the industry including therapeutics, medical devices and diagnostics.



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Support for facilitating Biotech Listings

We strongly support the Exchange's proposal to expand the existing listing regime to facilitate the listing of companies from emerging and innovative sectors, subject to appropriate safeguards.

Our comments on some of your proposals are noted below. We have included the relevant paragraphs from the Consultation Paper dated February 2018.

Our comments address Biotech Companies

Our comments in this letter are limited to your proposals and amendments in relation to Chapter 18A that address Biotech companies that do not meet any of the Financial Eligibility Tests. We provide no comments on high growth and innovative companies that have WVR structures and Qualifying Issuers seeking a secondary listing on the Exchange.

Sophisticated Investor

You propose that applicants have received meaningful third-party investment from at least one Sophisticated Investor at least six months prior to an IPO (para 74 (g)). You have currently defined "Sophisticated Investor" as:

'An investor 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.'

This definition provides wide latitude for investors to posit themselves as 'Sophisticated'. It could also create a substantial burden on the Exchange to review and police the sophistication of investors.

We recommend the Exchange considers establishing and codifying a narrower set of criteria, that should include:

1. Assets under management by the investor group, including (on a look-through basis) the ultimate parent, of at least US\$300mm or equivalent and have done so for at least the prior 24 months;
2. Prior experience of having invested in at least 2 biotech companies with each investment for a minimum of US\$5mm or equivalent; and
3. As a minimum, cumulative investments, at the time of evaluation, in the Biotech space of at least US\$50mm which will serve as an important proxy for the specialized knowledge and focus that would qualify the investor as 'sophisticated' when it comes to Biotech.



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Expected Market Capitalisation

We support the minimum expected market capitalization of HK\$1.5 billion (para 78). Whilst this is three times that required for applicants listing under the Profits Test, we feel that this is appropriate today given the higher risk nature of pre-revenue Biotech companies.

This higher bar should lead to applicants that are more developed and higher quality companies. Following a period of seasoning and market observation of 2-3 years of the initial cohort of applicants, the Exchange could always revisit this minimum level to see if it needs to be modified.

Substantially the same management

You have proposed that applicants 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 (Para 81 and 18A.03(3)). We recognize and support the desire for management continuity. We also note that you are yet to define or guide as to what will qualify as “substantially the same”.

With that context, we propose that the Exchange take a more permissive approach to management changes in Biotech companies prior to listing. We recommend that the Exchange focus its review, rules and guidance on the applicants sustained focus on its line of business as opposed to a narrow test of management continuity.

Personnel changes, including at the management level, are a fact of life in the Biotech space and the departure of a company’s CFO, for example, alone should not be reason to restart a two-year clock before the company could seek a listing.

Similarly, there are likely to be instances of global companies that set up Asian/HKG/China subsidiaries that may involve some new regional management. Such applicants, with appropriate safeguards and if there is business continuity at the parent level, should also be able to pursue a listing on the Exchange.

The occurrence of mergers and acquisitions, a feature of the industry, may also result in some management changes and once again we recommend the Exchange focus on preservation of the current line of business.



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Restriction on Cornerstones

Respectfully, and contrary to your proposal, we recommend the Exchange follow its existing Listing Rules and shares subscribed by Cornerstones (para 84) should count for the purposes of the minimum initial public float requirement. We note your desire for a market-driven price discovery process, but we do not see the two concepts as mutually exclusive.

If anything, Biotech applicants listing under Chapter 18A, will benefit from price discovery process led by sophisticated and specialized investors. Retail subscribers would also benefit from the additional scrutiny and price discovery process of these specialized investors.

Over time, we expect this to be a powerful determinant of the quality of applicants under Chapter 18A and the Exchange should encourage it as oppose to discouraging it inconsistent with its exiting Listing Rules.

Existing holders subscribing in the IPO

It is proposed that shares subscribed by existing investors at the time of IPO will not count towards the minimum initial public float, although existing shares held by investors (that aren't core connected people) will count (para 86).

Respectfully, and contrary to your proposal, we recommend that if an existing investor subscribes for shares in the IPO, at the IPO price, then those shares should be included for the purposes of the float test. Irrespective of an investor's existing holding, shares subscribed and allocated through a transparent price discovery process of an IPO should count towards the minimum initial public float requirement.

Further, the Exchange should encourage existing holders to participate in the IPO given nature of pre-revenue Biotech companies, with their elevated risk profile. Existing holders would bring specialised knowledge and scrutiny to bear and this would be an overall positive for the price discovery process and should not be hampered by the Exchange.



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Clawback

We refer to Practice Note 18 and rule 1.06 of the Exchange Listing Rules whereby a clawback can apply that forces a certain allocation to retail investors as a function of the level of oversubscription in the retail tranche.

We recommend that no clawback rule apply in relation to applicants seeking a listing under Chapter 18A, ie pre-revenue Biotech companies. You have rightly noted, in the Consultation Paper, that investments in early stage companies carry additional risks for investors who could lose part or all their investment. Investment in Biotech companies, additionally, requires specialized knowledge and sophistication.

Consequently, Biotech companies listing under Chapter 18A will benefit from the flexibility to allocate shares to long-term oriented and specialized Biotech investors. The Exchange particularly in relation to Chapter 18A applicants, should not impose an obligation (through its Listing Rules) on how shares are allocated between the placing tranche and a public subscription tranche. And in any case, minimum public float requirements will continue to apply both ensuring effective price discovery and an adequate distribution of non-connected shareholders.

Conclusion

In conclusion, we would like to thank you for the opportunity to comment on the Consultation Paper. If you have any questions, please reach out to me (contact details below) and we'd be happy to clarify anything amongst our comments or address any other matters.

Kind regards

Vincent Cheung

Group Managing Director & COO

Nan Fung Group

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