



23 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

BY POST AND BY E-MAIL

Dear Sirs,

Re: Emerging and Innovative Companies CP

The Chamber of Hong Kong Listed Companies is pleased to submit its response to the Consultation Paper on A Listing Regime for Companies from Emerging and Innovative Sectors ("Consultation Paper").

As expressed on many previous occasions, the Chamber strongly supports the introduction of new economy companies to the Hong Kong stock market and we believe the overall direction of the consultation paper and most of the details listed are agreeable.

Nevertheless, we identified two points in the consultation paper that we are deeply concerned about and would like to draw your attention to them.

1. Ordinary shareholders' power over the board

Paragraphs 28 and 128 state that certain key matters are to be decided on a one-share-one-vote basis and Weighted Voting Right ("WVR") beneficiaries will not be entitled to exercise WVRs on those matters. They include changes to the issuer's constitutional documents and the appointment or removal of an independent non-executive director ("INEDs").

The WVR structure recognises the contribution of the key individuals' human capital, thus allowing them to have more voting power well in excess of their monetary contributions. One must not overlook the fundamental purpose of having WVR structure is to enable key individuals of the company -- people who have made great contributions to the company's growth and are responsible for its continual success, to have control of company affairs despite having only a small percentage of shareholding. However, such control would be greatly hindered if i) they do not have power over changes to the company's constitutional documents to the extent which affect their WVRs and the company's corporate governance and ii) they cannot control who can serve on the board as INEDs.

A company's constitutional documents specify the rules governing the activities of the company and the relationship between its directors and shareholders. For example, they set out the board operation, its composition and how board members are elected, the rights and obligations of directors, shareholders' rights and powers, voting mechanisms at shareholders meetings, among others. These matters are the fundamentals of a company and it is inconceivable that WVR beneficiaries, being the company's key personnel, cannot have control of their amendments, in particular in cases where the amendments could restrain their rights as directors and hinder their exercise of power.

Likewise, the WVR beneficiaries need to be able to exercise control over the appointment of INEDs to the board who share the same business vision as theirs and such appointments are in the interests of the company as a whole. To lessen WVR beneficiaries the rights in the appointment and removal of INEDs' and in the amendment of the company's constitutional documents would therefore undermine the very purpose of allowing WVR structure.

We have seen in the recent attempted takeover of U.S. tech company Qualcomm by Singapore-based Broadcom that Broadcom had nominated six candidates to the board of Qualcomm who would support the Broadcom's bid. Although the nature of this case is different from what we are discussing here, it illustrates that board appointments or removals could be a manipulative tool used by certain groups of shareholders to achieve their own agenda and that may not necessarily be in the best interests of the company as a whole.

The above two provisions, if adopted, would greatly undermine the WVR beneficiaries' control over their company. It contradicts the intended purpose of WVR and would reduce the whole WVR regime of Hong Kong to a window dressing act.

2. Holdings of biotech companies' cornerstone investors not counting towards the public float

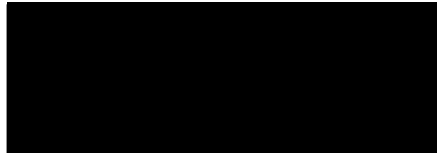
Paragraphs 13 & 14 of the Consultation Paper state that the Exchange proposes shares subscribed by cornerstone investors would not count towards determining whether a Biotech company has met the minimum initial public float requirement at the time of listing. There are some concerns about introducing this to biotech companies. Biotech companies carry a higher degree of risks. If the core products fail to obtain the necessary regulatory approval or cannot be commercialized for other reasons, the value of the company would evaporate. Thus they are not for everyone's appetite. From the issuer's and IPO sponsor's point of view, in order to ensure the success of the IPO, they may want to secure the support of as many cornerstone investors as possible. If however shares held by these cornerstone investors do not count towards maintaining the 25% public float, the issuer may need to sell more of its shares in order to meet the minimum requirement, resulting in a less optimal capital structure. We see no reasons why Biotech companies should be treated differently as far as cornerstone investors are concerned.

We therefore recommend that the Exchange follows the existing practice of dealing with cornerstone investors as regards public float and will not impose additional restriction or condition to Biotech companies given that the intention of the current consultation is to encourage, and promote, the listing of Biotech companies.

On a side issue, in paragraph 9 of the Consultation Paper, the Exchange lists the FDA, the CFDA and the EMA as Competent Authority for the purpose of the new Biotech Chapter of the Consultation Paper, we suggest that this list be reviewed from time to time that Hong Kong authorities should be specifically included so as to encourage more Hong Kong companies to undertake biomedical research in Hong Kong and to be listed under the new regime. This will be especially beneficial for homegrown biotech companies targeting the local market, as it will be much easier for them to get approval from a local drug registration agency.

If these provisions are adopted, the ability of Hong Kong to attract the targeted companies would be greatly reduced and Hong Kong would be back to square one in its attempt to become the market of choice for New Economy companies.

Yours sincerely,
For and on behalf of
The Chamber of Hong Kong Listed Companies



Mike Wong
Chief Executive Officer