



EUROPEAN CHAMBER
OF COMMERCE
IN HONG KONG
香港歐洲商務協會

The European Chamber of Commerce in Hong Kong
Room 1302, 13/F.,
168 Queen's Road Central, Hong Kong
T: +852 2511 5133
E: info@eurocham.com.hk
W: www.eurocham.com.hk

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

23 March 2018

Dear Sirs/Madams,

Re: Emerging and Innovative Companies CP

**Response to the Hong Kong Stock Exchange's Consultation Paper – A Listing Regime for Companies from
Emerging and Innovative Sectors**

I attach the response of the Financial Services Business Council (FSBC) of the European Chamber of Commerce in Hong Kong to the above consultation paper.

Yours faithfully,

Robert Agnew
Chairperson
The European Chamber of Commerce in Hong Kong

*The European Chamber of Commerce in Hong Kong is a 'Chamber of Chambers'
Austrian, Belgium/Luxembourg, British, Danish, Dutch, Finnish, French, German,
Irish, Italian, Lithuanian, Portuguese, Romanian, Spanish, Swedish*



**Response to the Hong Kong Stock Exchange's Consultation Paper – A Listing Regime for Companies from
Emerging and Innovative Sectors**

The Financial Services Business Council (FSBC) of the European Chamber of Commerce in Hong Kong welcomes the opportunity to comment on the proposals set out in the Exchange's Consultation Paper aimed at broadening the types of companies eligible to list on the Hong Kong Stock Exchange. Capitalised terms used herein have the same meaning as in the Consultation Paper.

1. Comments on proposed listing of pre-revenue biotech companies

1.1 Proposals will bring capital raising opportunities for European biotechs

The proposals to allow the listing of pre-revenue biotech companies are of particular interest to the European biotech sector which saw a significant increase in IPO funds raised by European biotech companies in 2017. €556 million was raised in 19 European biotech IPOs in 2017 which represented an increase of 47% compared to the previous year. The largest of these listed on Nasdaq and included Switzerland's ObsEva SA (raising €90 million), Germany's InflarX (raising €85.8 million) and UK-based Nucana Biomed (which raised €84.7million). The other 15 IPOs listed on European exchanges, with the largest IPOs by volume listing on Nasdaq Nordic. Post-IPO fundraising by listed European biotech companies also increased in 2017, rising to €4.27 billion, a 56% increase on the previous year. Approximately €1.1 billion of that was raised by 35 European biotech companies listed on Nasdaq, over half of which was raised in five secondary listings.

There have been reports in the past of underfunding in Europe's biotech sector. A paper by European Biopharmaceutical Enterprises in September 2016 claimed that Europe lagged the US in providing a mature biotech funding ecosystem resulting in capital leakage and an innovation drain to areas outside Europe.¹

The proposals for biotech listings in Hong Kong would thus provide a welcome alternative capital raising venue for European biotech companies to a Nasdaq or European listing. Further, with its

¹ European Biopharmaceutical Enterprises. Position paper - Europe's flawed and underfunded Biotech-ecosystem. 19 September 2016.



EUROPEAN CHAMBER
OF COMMERCE
IN HONG KONG
香港歐洲商務協會

The European Chamber of Commerce in Hong Kong
Room 1302, 13/F.,
168 Queen's Road Central, Hong Kong
T: +852 2511 5133
E: info@eurocham.com.hk
W: www.eurocham.com.hk

nexus with China and the potential for the Hong Kong-China stock connect schemes to be extended to include overseas companies, the potential to list in Hong Kong is likely to prove extremely attractive to the European biotech sector as a means to tap Asian capital, and Chinese capital in particular.

1.2 Increased opportunities for European investors to invest in Chinese biotech companies

The proposed Listing Rule relaxations will attract biotech companies from China and elsewhere in Asia, for example from South Korea and Taiwan, offering welcome investment opportunities for European as well as Asian investors. The current bar on listing pre-revenue biotechs in Hong Kong has led to a number of Chinese biotech companies listing instead on Nasdaq where some have made significant gains. For example, BeiGene, a developer of cancer treatments, saw a four-fold rise in its market value following its Nasdaq IPO. A successful listing regime for pre-revenue biotechs in Hong Kong would thus provide Chinese biotechs with better access to investors who are familiar with investing in the China market, while providing investors with welcome investment opportunities.

The Hong Kong Exchange may also be able to attract the listings of companies which might otherwise have listed on China's National Equities Exchange and Quotations Market for start-ups which has reportedly fallen short of expectations.

1.3 Facilitating the Development of a Biotech Investment Ecosystem

A key advantage of allowing pre-revenue biotechs to list in Hong Kong is that it will encourage the development of biotech expertise among bankers, analysts, valuers, regulators and investors which will in turn facilitate Hong Kong's development as a hub in this sector. With more investors and professionals with biotech expertise and experience, the biotech investment sector will grow in Hong Kong allowing it to regain some of the ground lost to Nasdaq and to establish Hong Kong as Asia's premier listing venue for biotechs.

1.4 Valuation and Auditing Issues

Our understanding is that there are not yet specific standards in place for the valuation of biotech assets. Consideration therefore needs to be given to ensuring the equivalence of valuation methods used by valuers of different biotech issuers. Similarly, it will be necessary to ensure equivalence on

*The European Chamber of Commerce in Hong Kong is a 'Chamber of Chambers'
Austrian, Belgium/Luxembourg, British, Danish, Dutch, Finnish, French, German,
Irish, Italian, Lithuanian, Portuguese, Romanian, Spanish, Swedish*



matters such as the capitalisation of development costs. We understand, for example, that development costs are typically capitalised at an earlier stage in the A share market than in the US market, while the position in Hong Kong is somewhere between these two positions.

2. Comments on Listing of Innovative Companies with WVR Structures

Again these proposals will prove very attractive to European investors who will gain access to some of China's most successful tech and disruptive companies.

2.1 Corporate WVR Beneficiaries

We welcome the Exchange's commitment to a further market consultation on the issue of corporate beneficiaries of WVR.² According to the Consultation Paper, corporate entities' right to hold WVR shares is something which interested parties would like to see included in the new regime, subject to appropriate safeguards. The current proposals require WVR beneficiaries to be individuals with an active executive role in the business who has contributed to a material extent to the business' growth. This clearly needs to be addressed if the current ban on corporate WVR beneficiaries would discourage companies with WVR structures from listing in Hong Kong, particularly given that there is no comparable restriction for WVR listings on Nasdaq or the NYSE, or under the proposals currently under consideration in Singapore.

2.2 Permitted WVR Structures

The definition of WVR includes both "share-based structures" (e.g. dual class share structures) and non-share based structures (e.g. mechanisms giving control of the board). However a distinction is drawn between primary and secondary listings with WVR structures of IPO applicants restricted to share-based structures, while non-share-based structures will be allowed (as an alternative to a share-based structure) for secondary listing applicants listing via the new concessionary route for issuers already listed on a qualifying exchange. It seems rather illogical that a company with WVR achieved through a mechanism giving board control should be allowed to secondary list in Hong

² At paragraph 51 of the Consultation Paper.



EUROPEAN CHAMBER
OF COMMERCE
IN HONG KONG
香港歐洲商務協會

The European Chamber of Commerce in Hong Kong
Room 1302, 13/F.,
168 Queen's Road Central, Hong Kong
T: +852 2511 5133
E: info@eurocham.com.hk
W: www.eurocham.com.hk

Kong, when a Hong Kong IPO of the same company would not be permitted. The FSBC would welcome clarification of this apparent incongruity.

The proposed suitability requirements for WVR companies include that each WVR beneficiary must be: (i) a director on IPO; and (ii) an individual with an active executive role within the business who has materially contributed to its ongoing growth. The director requirement is mandated under the draft Listing Rules (proposed Rule 8A.11), whereas the executive role is not. Should the executive role requirement also be included in the Listing Rules?

*The European Chamber of Commerce in Hong Kong is a 'Chamber of Chambers'
Austrian, Belgium/Luxembourg, British, Danish, Dutch, Finnish, French, German,
Irish, Italian, Lithuanian, Portuguese, Romanian, Spanish, Swedish*