China Renaissance

China Renaissance Securities (Hong Kong) Limited
Units 8107-08, International Commerce Centre
No.1 Austin Road West, Kowloon, Hong Kong
chinarenaissance.com

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

23rd March 2018

Dear Sirs,

Re: Emerging and Innovative Companies CP

We would like to provide our response in regard to the *Consultation Paper - A Listing Regime for Companies from Emerging and Innovative Sectors* as the following:

1. We suggest that the Exchange clarify the definition on Page 5 of a "Sophisticated Investor" and the criteria for investors to qualify for this classification. In our view, the current proposed definition could make it difficult for potential listing applicants and their advisors to render a reasonably definitive assessment as to whether they meet the suitability requirements to list in accordance with Paragraph 74 on Page 24 and Paragraph 106 (e) on Page 33 of the Proposal of the current Consultation Paper.

   In light of these concerns, we believe a clear guidance letter is necessary to clarify the definition a "Sophisticated Investor" and the criteria to qualify for this classification.

2. We believe that listing applicants, their advisors and the investment community would benefit from greater clarity around the criteria for establishing whether a listing applicant has an "innovative business model" and hence is eligible for the WVR structure. We refer specifically to the criteria in Chapter 3 of the current Consultation Paper that require a listing applicant to demonstrate that its business success is attributable to 1) new technologies; 2) innovations; and/or 3) new business model.

   It is our view based on feedback from potential listing applicants that the criteria as currently written would make it difficult for applicants and their advisors to conclude with

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reasonable certainty whether a business model qualifies as "innovative" and hence eligible for a WVR structure.

In light of these concerns, we believe a clear guidance letter in the form of specific criteria and definitions is necessary to distinguish "innovative" business models from conventional business models.

3. We agree with concerns expressed by others in the market about the exclusion of shares held by Cornerstone Investors from a company's public float during the lock-up period. Specifically, we believe that this exclusion could adversely affect the price discovery process of the IPO and unnecessarily dilute existing shareholders.

   Enlisting one or more Cornerstone Investors to subscribe to a certain percentage of shares is important to establish investor demand for the offering. It has an important signaling effect to the broader market and can facilitate the book-building process during less favorable market conditions, such as a market downturn or periods of heightened and generalized volatility and risk aversion.

   In order to comply with the proposed regime, the listing applicant would have to issue additional shares, in an amount equivalent to the cornerstone holdings, in order to fulfill the minimum public float requirement, which could lead to the adverse consequences noted above.

   We have heard these concerns firsthand from potential listing applicants in the biotech sector. Some applicants have expressed concern that the exclusion of cornerstone shares from the public float would be disadvantageous to the companies and their existing shareholders and would complicate their IPO processes.

   We believe that if cornerstone shares are included in a company's public float from the beginning of the listing, then the final book-building result and the IPO pricing will be determined by the aggregate demand from all investors, and hence it will be fair for the issuer, the existing shareholders and broader investor community.

   In light of these concerns, we suggest that the Exchange consider alternatives to a complete exclusion of cornerstone shares from the public float calculation. For example, the Exchange could allow cornerstone holdings to be included in the public float, but

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subject to a longer-lock-up period. Alternatively, the Exchange could apply a discount factor to cornerstone shares, perhaps in the range of 30~50%, in order to give them some weight in the initial public float and blunt the potential adverse consequences of excluding them altogether.

Thank you for your attention.

Yours faithfully,

China Renaissance