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ENHANCING HONG KONG'S LISTING FRAMEWORK

*Consultation on Listing Regime for Companies
from Emerging and Innovative Sectors*

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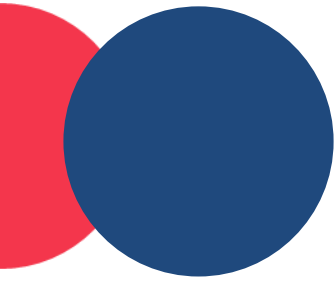
Agenda

1 Background to the Consultation

2 Consultation Proposals

3 Timetable and Next Steps





BACKGROUND TO THE CONSULTATION

What Did We Set Out to Achieve?

OUR GOAL:

-  Enhance Hong Kong's competitiveness as a global financial centre
-  Attract high growth companies from emerging and innovative sectors
-  Diversify Hong Kong's market

Issues Identified



No regime for pre-revenue emerging and innovative companies



No regime for non-standard governance features



Restrictions on secondary listings

Proposed Way Forward Following “New Board” Concept Paper Feedback

ESTABLISH



*PRE-REVENUE
COMPANIES*

ESTABLISH



*NON-STANDARD GOVERNANCE
COMPANIES*

ENHANCE



*MAINLAND & INTERNATIONAL
COMPANIES*



What Has Been Done Since Publication of the “New Board” Consultation Conclusions in December 2017?



Engaged with practitioners

- Feedback on appropriate listing parameters / conditions / safeguards / requirements
- Specialist advice on Biotech Companies



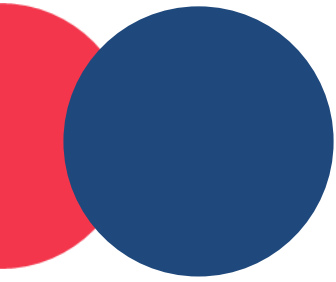
Engaged with issuers

- Better understanding of real issues / market needs
- Ensure listing regime is globally competitive



Detailed regulatory discussion

- SFC → appropriate investor protections
- Listing Committee → detailed Listing Rules requirements and practical operation of the new regime



CONSULTATION PROPOSALS

Contents of This Consultation

Proposals

*Closely follows “Way Forward” in “New Board”
Consultation Conclusions published in Dec 2017:*

BIOTECH

- Biotech Companies that do not meet any of the Main Board financial eligibility tests

WVR

- Companies with a WVR structure

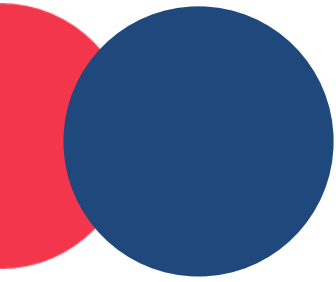
SECONDARY
LISTING

- New concessionary secondary listing route

3

**new chapters of the
Main Board Rules**
(one for each proposal)





CONSULTATION PROPOSALS
BIOTECH CHAPTER

Principles Underlying Biotech Issuer Suitability



Product regulated by Competent Authority

- US Food and Drug Administration (FDA), China Food and Drug Administration (CFDA), European Medicines Agency (EMA)
- Other authorities will be considered on a case-by-case basis



Past concept stage

- Completed Phase I and received no objection to commence Phase II (or later)
- Product subject to human testing



Meaningful investment from at least one Sophisticated Investor

- To provide a level of validation from an experienced third party investor

Proposed Listing Eligibility

SUITABILITY FOR LISTING

PRODUCT

At least one Core Product⁽¹⁾ beyond concept stage

RESEARCH AND DEVELOPMENT

Primarily engaged in R&D of its Core Product(s) for a minimum of 12 months

IPO

Primary reason for listing is to raise capital for R&D to bring its Core Product(s) to commercialisation

PATENTS

Durable patent(s), registered patent(s), patent application(s) and/or intellectual property in relation to its Core Product(s)

SOPHISTICATED INVESTOR⁽²⁾

Meaningful investment⁽³⁾ for at least 6 months before IPO (which must remain at IPO)

Specific guidance for Biotech Issuers



Pharmaceutical (small molecule drugs)

- completed Phase I or, for previously approved products (e.g. FDA's 505(b)(2)) – at least one trial on human subjects; and
- no objection to commence Phase II



Biologics

- completed Phase I, or for biosimilar – at least one trial on human subjects; and
- no objection to commence Phase II (or later)



Medical Devices (including diagnostics)

- Class II medical device (or equivalent) or above;
- at least one trial on human subjects;
- endorsed or no objection to proceed to further clinical trials or commence sales of the device



Other Biotech Products

- will be considered on a case-by-case basis;
- need to demonstrate it is beyond concept stage;
- appropriate framework or objective indicator for investors to make an informed investment decision



(1) A Biotech Product(s) that is required by applicable laws, rules or regulations to be evaluated and approved by a Competent Authority based on data derived from clinical trials (i.e. on human subjects) before it could be marketed and sold in the market regulated by that Competent Authority which forms the basis of a Biotech Company's listing application under Chapter 18A of the Listing Rules

(2) 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

(3) Being more than just a token investment

Additional Listing Requirements and Shareholder Protections

Market Cap

- **≥HK\$1.5billion**

Track Record

- **In its current line of business for at least 2 financial years**
- **Substantially the same management**

Working Capital

- **125% of the group's costs for at least next 12 months (after taking into account the proceeds of the IPO)**
- **Must substantially consist of (a) general, administrative and operating costs; and (b) R&D costs**

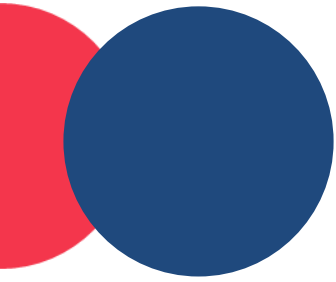
Restriction on Cornerstones

- **Cornerstones will not count towards minimum initial public float requirement at listing or during 6 months lock-up**
- **Existing pre-IPO investors can participate in IPO and only IPO shares subscribed for will not count towards minimum initial public float requirement**

Special Measures to Manage Risks

- **Fundamental change of principal business will require consent from the Exchange**
- **Accelerated de-listing process (12 months to re-comply with requirement)**
- **Stock marker "B" at the end of its stock name**





CONSULTATION PROPOSALS
WVR CHAPTER

Proposed Listing Eligibility



COMPANIES

NEW APPLICANTS ONLY

HIGH MARKET CAP.

- \geq HK\$10bn with \geq HK\$1bn in revenue if $<$ HK\$40bn

INNOVATIVE

- as defined by guidance

SUCCESSFUL

- track record of high business growth

EXTERNAL VALIDATION

- meaningful third party investment



WVR BENEFICIARIES

INDIVIDUALS ONLY

- materially responsible for growth of the business
- separate consultation on corporate beneficiaries

DIRECTORS ONLY

- at listing and afterwards

SHAREHOLDING

- \geq 10% and \leq 50% at listing (collectively)

TRANSFERS PROHIBITED

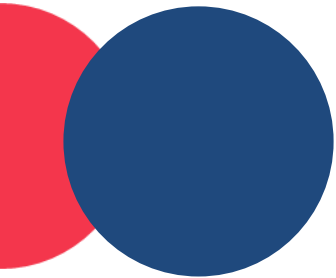
- natural sunset
- allow trusts and legitimate tax planning

Additional Listing Requirements and Shareholder Protections



SAFEGUARDS

- **No increase in proportion of WVRs after listing**
- **Share-based WVR only with maximum 10x voting power vs. ordinary shares**
- **Non-WVR shareholders must have 10% of voting power**
- **Fundamental matters voted on a “one-share, one-vote” basis**
 - changes to constitutional documents;
 - INED appointment & removal;
 - auditor appointment & removal;
 - variation of rights attached to any class of shares; and
 - voluntary winding-up of the listed issuer
- **Enhanced disclosure**
 - Warnings on listing documents and communications
 - “W” stock marker
- **Enhanced corporate governance**
 - Corporate governance committee to review, monitor and report on compliance with WVR safeguards
 - Ongoing compliance adviser to provide advice to issuers on compliance with WVR safeguards and rules
- **Constitutional backing and legal remedies**
 - WVR safeguards must be incorporated into constitutional documents
 - WVR beneficiaries must give undertaking to the issuer to comply with WVR safeguards



CONSULTATION PROPOSALS
SECONDARY LISTING CHAPTER

Qualifying Criteria for New Secondary Listing Regime



QUALIFYING ISSUERS

LISTED ON QUALIFYING EXCHANGE

- NYSE, NASDAQ & LSE's Main Market ("premium" only)

GOOD COMPLIANCE RECORD

- at least 2 financial years on Qualifying Exchange

HIGH MARKET CAP

- \geq HK\$10bn with \geq HK\$1bn in revenue if less than HK\$40bn⁽¹⁾

GREATER CHINA COMPANIES PERMITTED TO SECONDARY LIST



(1) Non-Greater China Issuers can list with \geq HK\$10bn only

Secondary Listing of Qualifying Issuers

**GRANDFATHERED
GREATER CHINA COMPANIES**

NON-GRANDFATHERED
GREATER CHINA COMPANIES

NON-GREATER CHINA
COMPANIES

GRANDFATHERED GREATER CHINA COMPANIES:

- Greater China companies that primary listed on a Qualifying Exchange on or before 15 Dec 2017
- Must demonstrate how they are subject to Key Shareholder Protections⁽¹⁾ (changes to constitutional documents may be required, as necessary)
- No need to comply with ongoing primary Listing Rule requirements (e.g. notifiable transaction and connected transaction rules)
- Can secondary list with their existing WVR structures and VIE structures intact (if they have them)
- No need for them to comply with WVR safeguards (other than those requiring disclosure)
- If “bulk of trading” moves permanently to Hong Kong then primary Listing Rule requirements would apply but not WVR safeguards (other than disclosure requirements)



(1) For example:

- issuer must hold an annual general meeting at least every 15 months, give reasonable notice of meetings and members to have the right to speak and vote at the shareholders' meeting
- super-majority vote of members is required to approve fundamental matters (material changes to constitutional documents, variation of rights attached to any class of shares and voluntary winding-up)
- appointment, removal and the remuneration of auditors require the approval of a majority of shareholders or other body independent of the board of directors

Secondary Listing of Qualifying Issuers

GRANDFATHERED
GREATER CHINA COMPANIES

NON-GRANDFATHERED
GREATER CHINA COMPANIES

NON-GREATER CHINA
COMPANIES

NON-GRANDFATHERED GREATER CHINA COMPANIES:

- Greater China companies that primary listed on a Qualifying Exchange after 15 Dec 2017
- Must vary constitutional documents as required by existing Rules to meet “equivalence” requirements
- No need to comply with ongoing primary Listing Rule requirements (e.g. notifiable transaction and connected transaction rules)
- WVR structures and VIE structures (if they have them) must conform to all primary Listing Rule requirements
- If “bulk of trading” moves permanently to Hong Kong then primary Listing Rule requirements would apply
- Approach designed to deter “regulatory arbitrage”



Secondary Listing of Qualifying Issuers

GRANDFATHERED
GREATER CHINA COMPANIES

NON-GRANDFATHERED
GREATER CHINA COMPANIES

**NON-GREATER CHINA
COMPANIES**

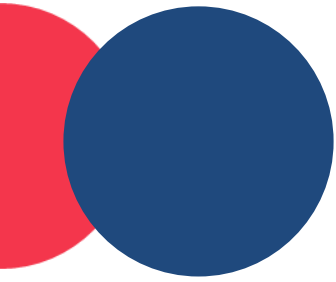
NON-GREATER CHINA COMPANIES:

- Any company from outside of Greater China primary listed on a Qualifying Exchange
- Must demonstrate how they are subject to Key Shareholder Protections⁽¹⁾ (changes to constitutional documents may be required, as necessary)
- No need to comply with ongoing primary Listing Rule requirements (e.g. notifiable transaction and connected transaction rules)
- Can secondary list with their existing WVR structures and VIE structures intact (if they have them)
- No need for them to comply with WVR safeguards (other than those requiring disclosure)
- No change if “bulk of trading” moves permanently to Hong Kong

(1) For example:

- issuer must hold an annual general meeting at least every 15 months, give reasonable notice of meetings and members to have the right to speak and vote at the shareholders' meeting
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TIMETABLE AND NEXT STEPS

Key Dates

Today

**23
FEB**

**Publish Rules
Consultation**

**23
MAR**

**Deadline for
market feedback**

**Est.
LATE
APR**

**Publish Conclusions;
Rules become effective
and listing applications will
be accepted**

HKEX invites market views on the proposals and the Listing Rules to implement them



Q&A

