

24 April 2018

ENHANCING HONG KONG'S LISTING FRAMEWORK

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

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Agenda

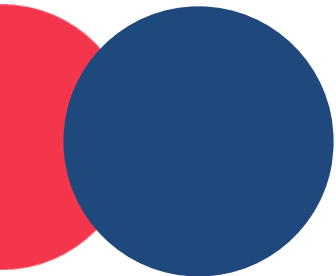
1 Background to the Consultation

2 Results of the Consultation

3 Response to Comments

4 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

Proposals

ESTABLISH

**NEW
BIOTECH
CHAPTER**

*PRE-REVENUE
COMPANIES*

ESTABLISH

**NEW
WVR
CHAPTER**

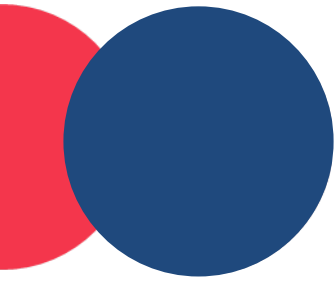
*NON-STANDARD GOVERNANCE
COMPANIES*

ESTABLISH

**NEW
SECONDARY
LISTING
CHAPTER**

*MAINLAND & INTERNATIONAL
COMPANIES*





RESULTS OF CONSULTATION

Results of Consultation

283

responses from a
broad range of
stakeholders⁽¹⁾

- **Overwhelming stakeholder support⁽²⁾ for new listing regime proposals**

96% supported New Biotech Chapter

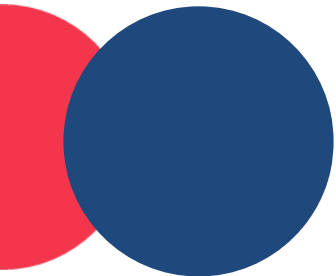
84% supported New WVR Chapter

96% supported New Secondary Listing Chapter

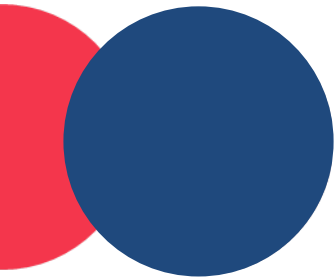
- **Comments on matters of detail and requesting clarifications**



1. 9 of the 283 responses were duplicate responses and three were supplemental responses from the same respondent
2. Percentages of the total number of respondents expressing a view on each of the three subject areas



RESPONSE TO COMMENTS



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

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 stock name**



Amendments & Clarifications

PROPOSAL

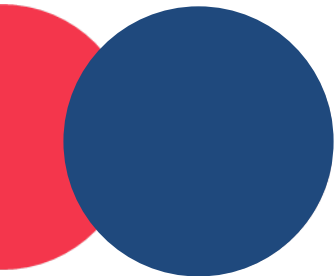
Broad definition of “Sophisticated Investor” and “meaningful investment”

Cornerstones and Pre-IPO investors subscriptions excluded from the public float

AMENDMENT / CLARIFICATION

Provided examples of “Sophisticated Investors” & quantified benchmark for “meaningful investments”

HK\$375m of the public float ring-fenced but Cornerstones and Pre-IPO investor subscriptions can count in remainder



WVR CHAPTER

Proposed Listing Eligibility & Suitability Requirements



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

- event-defined 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
 - Stock marker “W” at the end of stock name
- 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

Amendments & Clarifications

PROPOSAL

Prohibition on listing if WVR beneficiary holds 50% or more economic interest

Corporate Governance Committee composed of majority of INEDs

Change to constitutional documents a “one-share, one-vote” matter



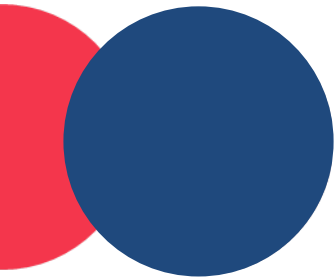
AMENDMENT / CLARIFICATION

Prohibition removed
(10% of voting power must always be in hands of non-WVR shareholder)

Corporate Governance Committee composed entirely of INEDs

Clarified intention not to empower non-WVR shareholders to remove WVR structure





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

Amendments & Clarifications

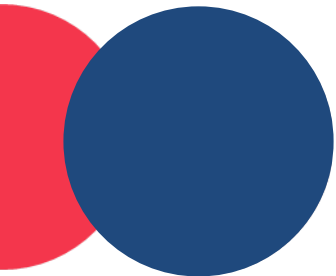
CONCERN

Applicants should be able to submit an application on a confidential basis (e.g. to enjoy a non-disclosure “safe harbour” available in primary market)



AMENDMENT / CLARIFICATION

Eligible applicants can submit a listing application on a confidential basis



TIMETABLE AND NEXT STEPS

Key Dates

Today

**24
APR**

**Publish Rules
Consultation
Conclusions**

**30
APR**

**Rules become effective;
listing applications &
formal pre-IPO enquiries
accepted**

**Est.
Jun/Jul
2018**

**First listings under
the new regime**



Q&A

