

Skadden, Arps, Slate, Meagher & Flom LLP and Affiliates

2020 Corporate Governance Survey of Hong Kong-Listed Biotech Companies

March 2021

Survey

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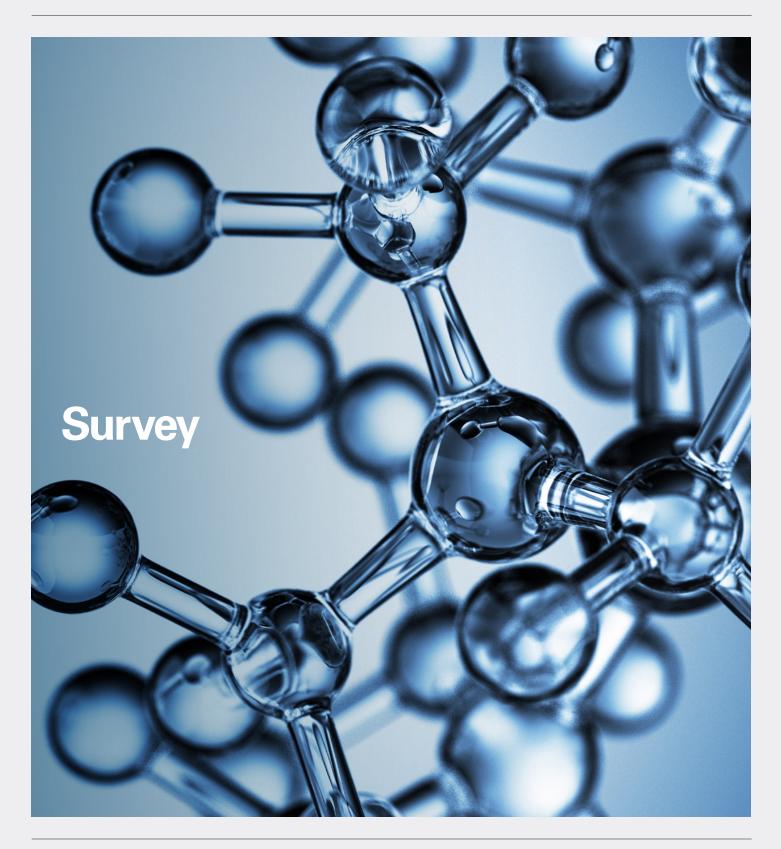
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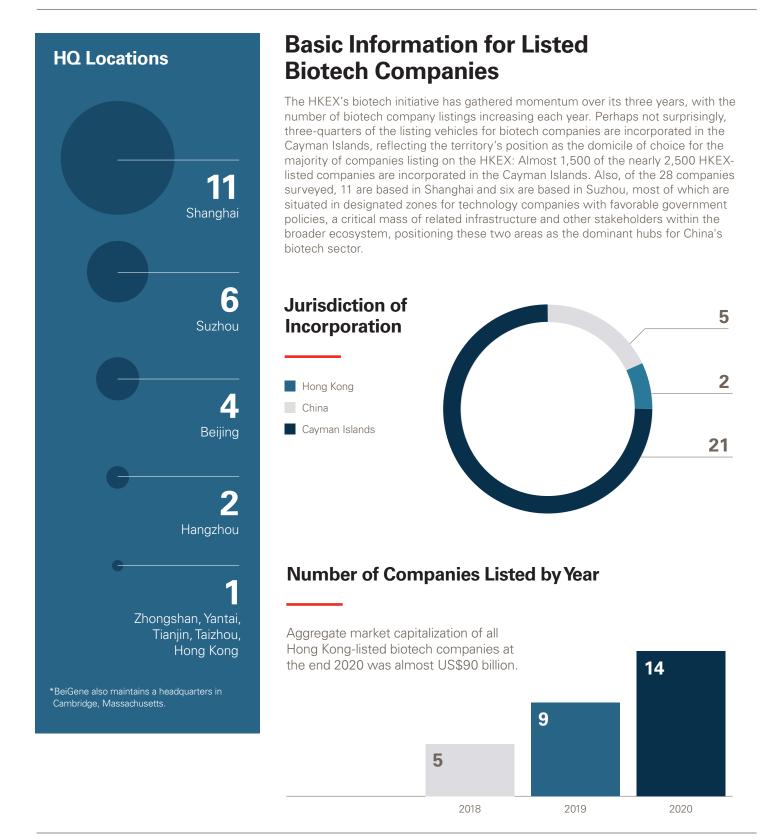
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On February 23, 2018, the Stock Exchange of Hong Kong Limited (HKEX) published its consultation conclusions regarding a new chapter of its listing rules to facilitate the listings of pre-revenue biotech companies in Hong Kong, heralding a new era for the Hong Kong capital markets.

In formulating the new Chapter 18A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (Listing Rules), the HKEX and the Securities and Futures Commission (SFC) made the policy decision to permit only pre-revenue companies that are at a relatively advanced stage of development to list, seeking to insulate investors from the significant risks associated with biotech companies still at a pre-clinical trial stage of development. In the three years since the consultation conclusions were published, 28 companies listing pursuant to the new Chapter 18A of the Listing Rules have raised almost US\$10 billion in new capital, and as of December 31, 2020, the share prices of those companies had increased by an average of 67.1% — evidence that the HKEX's initiative has yielded positive results for companies, investors and other stakeholders.

We have prepared this inaugural survey to mark the third anniversary of the consultation conclusions to enable companies contemplating a listing on the HKEX to benchmark themselves against those that have already listed, and to help stakeholders in the biotech ecosystem understand the emerging landscape for listed biotech companies in Hong Kong. In particular, we focus on the level of maturity of biotech companies completing IPOs (measured by various data points such as company age, pre-IPO financing levels, R&D spending and number of pipeline products) and corporate governance aspects of listed biotech companies, including board composition and demographics.





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Status and Maturity of the Business at the Time of IPO

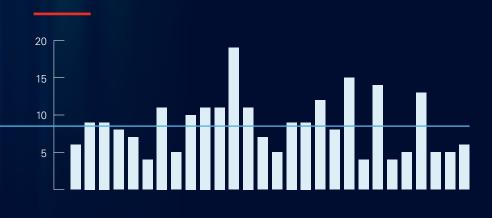
The HKEX and SFC made a deliberate policy choice to permit only pre-revenue biotech companies at a relatively advanced stage of development to list. The key objective reference points set forth in Chapter 18A and the corresponding guidance letters issued by the HKEX are that a company must have been engaged in business for at least two full financial years and must have at least one "Core Product" beyond concept stage. A "Core Product" is a biotech product that is required by applicable laws, rules or regulations to be evaluated and approved by the U.S. Food and Drug Administration, the China Food and Drug Administration, the European Medicines Agency or an equivalent authority approved by the HKEX (a Competent Authority) based on data derived from clinical trials (*i.e.*, on human subjects) before the product could be marketed and sold in the market regulated by that Competent Authority. A biotech company must have engaged in R&D of its Core Product(s) for a minimum of 12 months prior to listing. The Listing Rules define "beyond the concept stage" to mean that Phase 1 clinical trials have been completed and the relevant Competent Authority has no objection to commencement of Phase II clinical trials.

The HKEX permits companies to rely on an in-licensed product to meet the "Core Product" test, provided that a company has conducted 12 months of further R&D on the product.

The effect of these benchmarks is clearly borne out by the survey results: The average pre-revenue biotech company listing on the HKEX has been in existence for 8.6 years, conducted 4.5 rounds of pre-IPO financing raising an average of US\$229 million, spent approximately US\$91 million on R&D during its IPO track record period (which is the two full financial years prior to IPO, plus any required stub period) and has 12 drug candidates in its pipeline, of which two are Core Products. Further information on these and other data points are set out on the following pages.

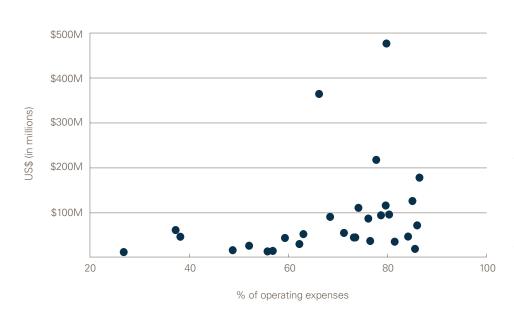
Years From Founding to IPO

(inclusive of both year of founding and IPO)



8.6

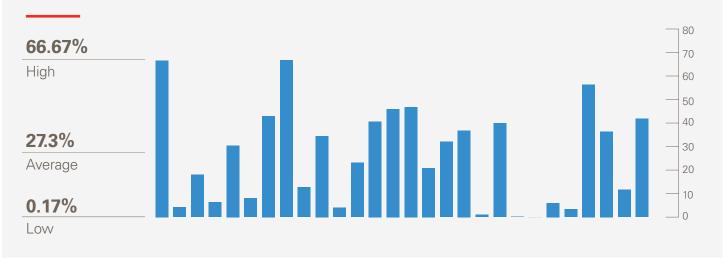
Average years from founding to IPO



R&D Spend Across Track Record Period

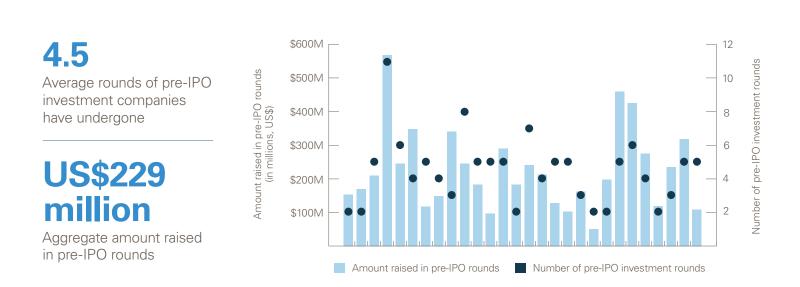
The Listing Rules require companies to include two full financial years of financial information, plus a stub period if the prospectus is issued more than six months after the end of the most recent financial year. As a result, the time periods over which the amounts included in this chart have been spent may not be directly comparable with one another - for example, for some companies the amounts cover only two financial years, while for others the amounts cover two financial years and a six-month stub period. R&D amounts may also not be directly comparable to one another due to differences in accounting practices and the judgments made by management when categorizing expenses.

Percentage of Board/Management Ownership Immediately Prior to IPO

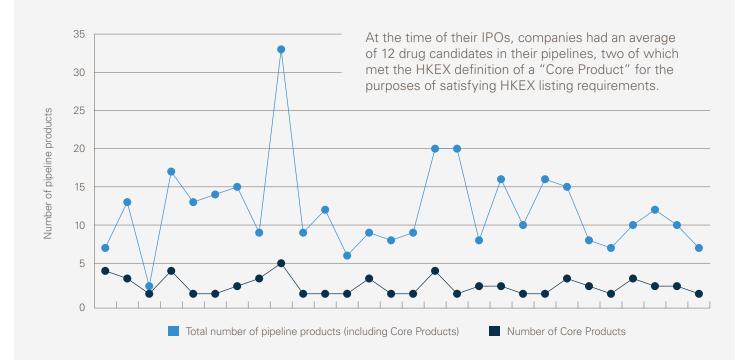


Figures reflect the percentage of issued share capital held by founders and other individuals named in the prospectus. The actual percentage interests of these individuals may be higher in some cases due to those people being grantees of restricted stock units (RSUs), options and other equity-based awards that have not yet vested and/or been exercised.

Pre-IPO Funding Rounds



Product Development Status at IPO

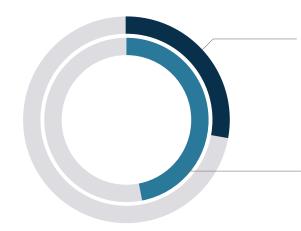


Method of Development

Average number of Core

Average number of other products in-licensed

Products in-licensed



2.8 Average number other products in-licensed

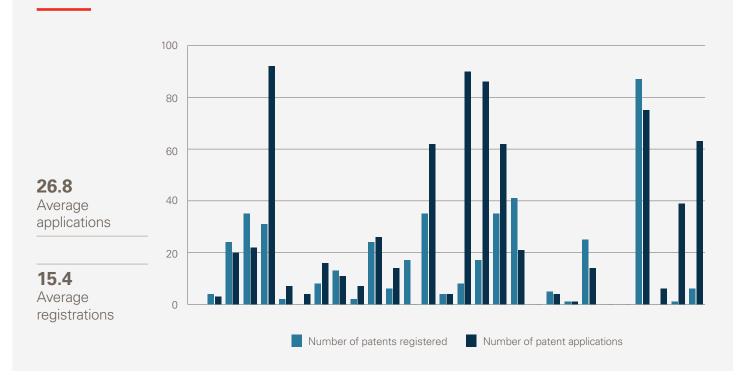
In-licensed other products comprised 28% of the total number of other products in development.

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Average number Core Products in-licensed

In-licensed Core Products comprised 47% of the total number of Core Products in development.

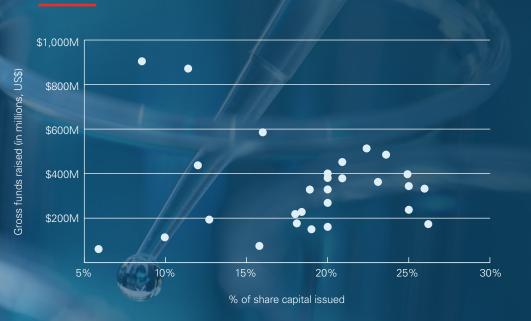
Intellectual Property Ownership at IPO



IPO Information

Of the 28 surveyed companies, half were trading above their IPO prices at the end of 2020. However, the average share price change across all 28 companies represented a gain of 67.1% — highlighting the potential attractiveness of biotech IPOs to the investment community. This attraction has resulted in most IPOs being significantly oversubscribed, and is likely to result in more Asia-based biotech companies seeking listings on the HKEX in the coming years.

IPO Size



\$345 million

Average gross funds raised

This includes funds raised from any secondary share sales and is based on a USD-HKD exchange rate of 7:75.

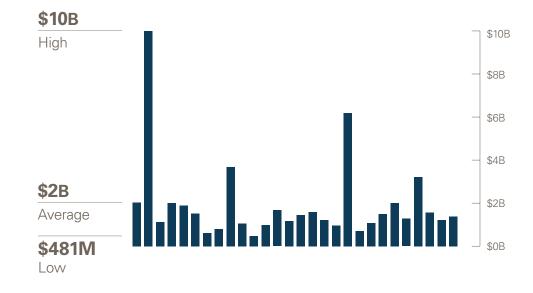
Funds raised have been compiled using HKEX data, available at https://www2.hkexnews.hk/New-Listings/New-Listing-Information/Main-Board?sc_lang=en.

Figures are based on initial number of shares offered, excluding any shares that may have subsequently been issued pursuant to any over-allotment option.

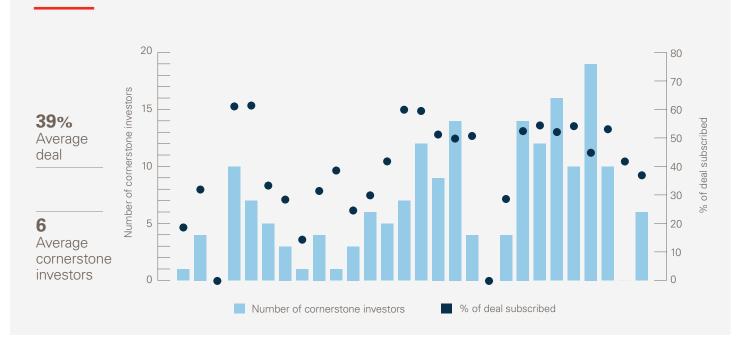


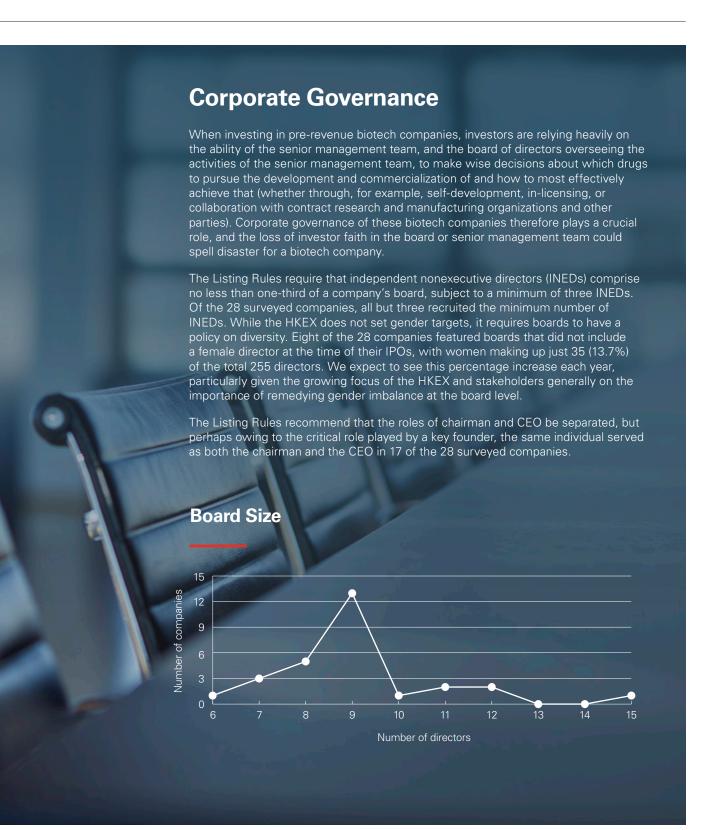
6 of 14 companies that had been listed for at least a year as of Dec. 31, 2020, had conducted one or more follow-on capital raisings. All six of these were among the seven out of 14 whose share price was trading above its IPO point at

Dec. 31, 2020, highlighting the correlation between positive post-IPO share price performance and the ability to raise further capital.

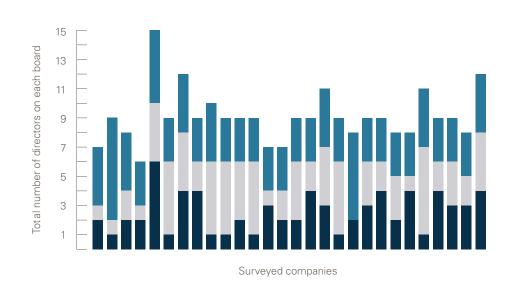


Number of Cornerstone Investors and Percentage of Deal Subscribed





Board Composition





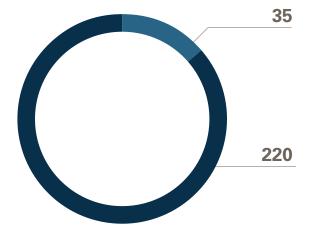
The HKEX requires one-third of the board to be INEDs, subject to a minimum of three directors, while Nasdaq requires a majority of the board to be independent directors. Note the factors determining independence differ somewhat between markets.

The figures include the boards of BeiGene and Zai Lab Limited, which are both also listed on the Nasdaq, the rules of which require a board to have a majority of independent directors.

Gender Representation on Surveyed Boards



The HKEX is increasingly focused on board diversity and requires every listed company to have a diversity policy and a clearly articulated plan as to how it proposes to remedy any diversity issues.



Number of Women on Surveyed Boards



Number of companies

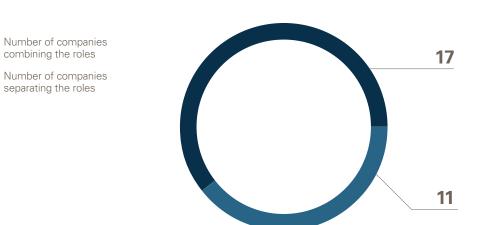
Board Nationality



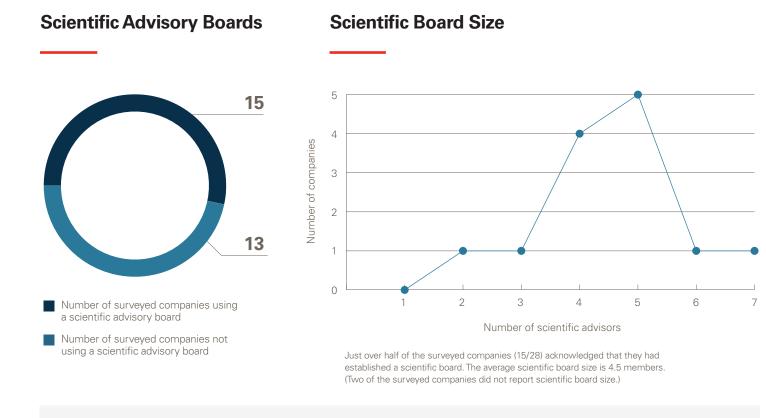
Combined CEO/Chairman

combining the roles

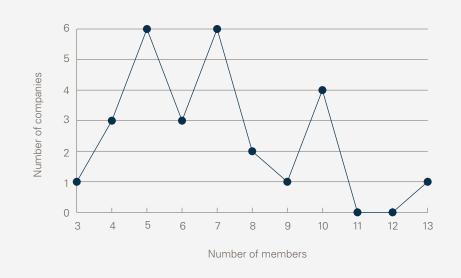
separating the roles



The HKEX Corporate Governance Code (which is a "comply or explain" code) recommends separating these two roles, but permits companies, "where appropriate," to combine the roles, provided companies explain the rationale for doing so. 17 of 28 surveyed companies combine the roles, making the dual role a relatively common phenomenon in the biotech field.



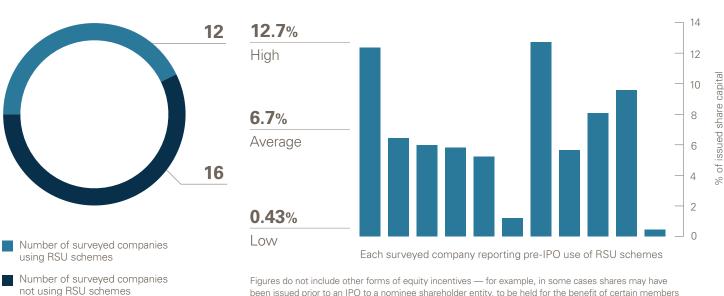
Number of Senior Management Team Members Named in Prospectus



These figures include executive directors but exclude individuals serving solely as company secretaries.

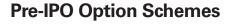
The HK Listing Rules do not prescribe a minimum number of senior management members or define what roles constitute "senior management." Determining how many individuals are of sufficient seniority to include in the prospectus is largely up to the company's discretion, with the results therefore varying significantly from a minimum of three to a maximum of 13.

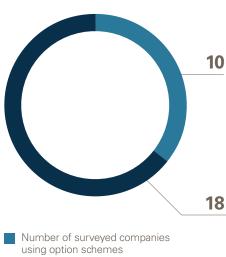




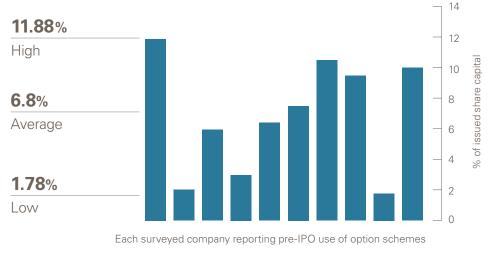
Pre-IPO RSU Schemes

been issued prior to an IPO to a nominee shareholder entity, to be held for the benefit of certain members of management/employees. (One of the surveyed companies did not report pre-IPO use of RSU schemes.)



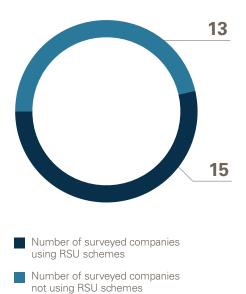


Number of surveyed companies not using option schemes



Figures do not include other forms of equity incentives — for example, in some cases shares may have been issued prior to an IPO to a nominee shareholder entity, to be held for the benefit of certain members of management/employees.

Post-IPO RSU Schemes



10% High 4% Average 0.76% Low

10

of issued share capital

%

10

8

6

4

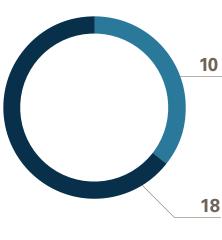
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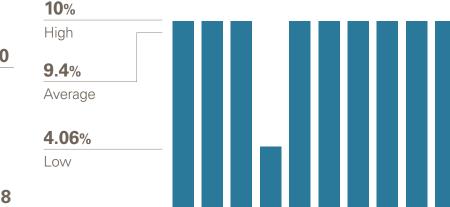
of issued share capital

2 %

Each surveyed company reporting post-IPO use of RSU schemes

Figures do not include other forms of equity incentives — for example, in some cases shares may have been issued prior to an IPO to a nominee shareholder entity, to be held for the benefit of certain members of management/employees.





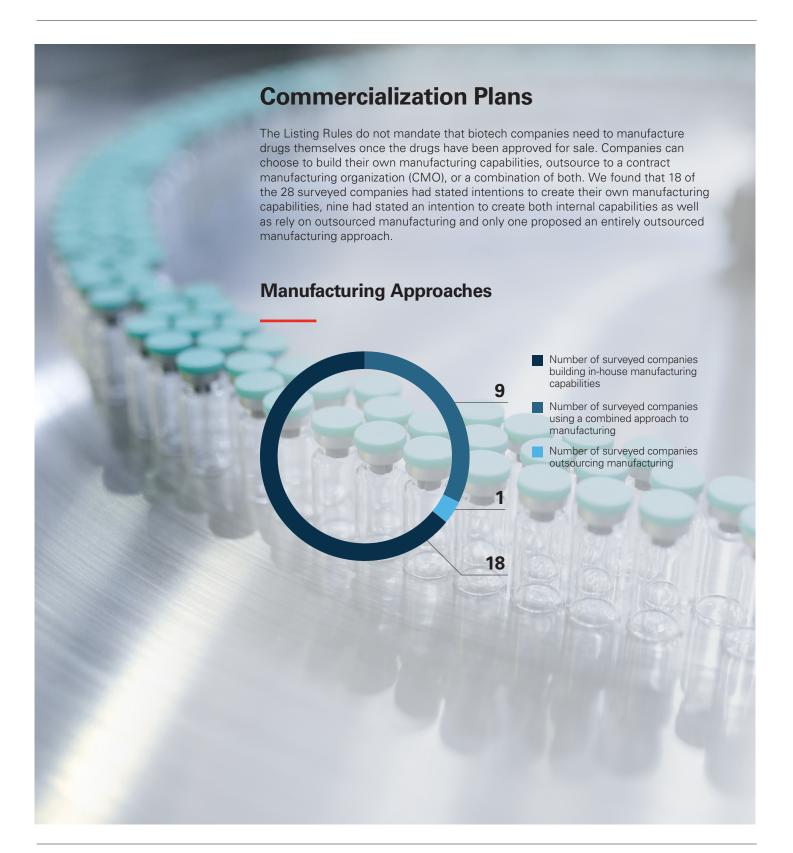
Number of surveyed companies using option schemes

Number of surveyed companies not using option schemes

Each surveyed company reporting post-IPO use of RSU schemes

Figures do not include other forms of equity incentives — for example, in some cases shares may have been issued prior to an IPO to a nominee shareholder entity, to be held for the benefit of certain members of management/employees.

Post-IPO Option Schemes



"B" Marker Status and Effects

Companies listing pursuant to Chapter 18A of the Listing Rules must include a "B" marker next to their stock names to signify to investors their status as pre-revenue biotech companies. Under Listing Rule 18A.11, after a company begins to generate revenues such that it meets one of the three financial tests in Listing Rule 8.05, it can apply to the HKEX to have the marker removed.

As of the date of this survey, three companies (BeiGene; Innovent Biologics, Inc.; and Shanghai Junshi Biosciences Co., Ltd.) had successfully applied to have the "B" marker removed as a result of meeting one or more of the financial tests above. All three of these companies are eligible securities for Southbound trading under the HKEX-Shanghai Stock Connect program. While removal of the "B" marker is no longer a prerequisite for Stock Connect eligibility (as it once was), removal of the marker results in certain other requirements of Chapter 18A of the Listing Rules no longer applying to a company, such as the requirement to consult the HKEX if a fundamental change to the principal business activities of the company occurs.

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Profits test: a profit of no less than HK\$20 million in the most

Three Financial Tests

in Listing Rule 8.05

- recent financial year and an aggregate profit of no less than HK\$30 million in the two years prior to that.
- Market cap/revenue/cash flow test: a market capitalization of no less than HK\$2 billion, revenues of at least HK\$500 million in the most recent financial year and positive cash flow from operating activities of no less than an aggregate of HK\$100 million over the three preceding financial years.
- Market cap/revenue test: a \mathbf{O} market capitalization of no less than HK\$4 billion and revenues of at least HK\$500 million in the most recent financial year.

Post-IPO Share Price Performance

One of the most important reasons for conducting an IPO and becoming a public company is to create a platform for future equity fundraising activities. However, the Listing Rules restrict new share issuances by newly listed companies for a period of six months.

As of December 31, 2020, 18 biotech companies had been listed on the HKEX for at least six months. Of these companies, six had conducted one or more equity capital raisings subsequent to their IPOs as of December 31, 2020, with a further three raising capital since the start of 2021. The six companies that had raised additional capital as of December 31, 2020, raised an aggregate of almost US\$8 billion (or an average of approximately US\$1.3 billion) — although a significant amount of this (almost US\$4.8 billion) was raised by BeiGene, which is also listed on the Nasdaq.

The six companies who had conducted post-IPO capital raisings as of December 31, 2020, were all among the companies whose share price was trading above the IPO price as of such date, highlighting the strong correlation between positive post-IPO share price performance and the ability to raise further capital.

Survey Methodology

These 28 companies were included in the survey:

- Akeso, Inc. Alphamab Oncology Antengene Corporation Limited Ascentage Pharma Group International Ascletis Pharma Inc. BeiGene, Ltd. CanSino Biologics Inc. CStone Pharmaceuticals Everest Medicines Limited HBM Holdings Limited HBM Holdings Limited Hua Medicine (Shanghai) Ltd. Immunotech Biopharm Ltd InnoCare Pharma Limited Innovent Biologics, Inc. Jacobio Pharmaceuticals Group Co., Ltd.
- JHBP (CY) Holdings Limited JW (Cayman) Therapeutics Co. Ltd Kintor Pharmaceutical Limited Mabpharm Limited Ocumension Therapeutics Peijia Medical Limited RemeGen Co., Ltd. Shanghai Henlius Biotech, Inc. Shanghai Junshi Biosciences Co., Ltd. SinoMab BioScience Limited TOT BIOPHARM International Company Limited Venus Medtech (Hangzhou) Inc. Zai Lab Limited

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Sources

We derived the data in this survey from publicly available sources (except where otherwise noted).

Exchange Rates

The exchange rates used in this survey are: US\$1 = HK\$7.75 and US\$1 = RMB6.5

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