Submitted via Qualtrics

Ashurst Hong Kong
Company / Organisation
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Question 1
Do you agree with the proposed definitions of "Specialist Technology Company", "Specialist Technology Products" and "Specialist Technology"?

Yes

Please give reasons for your views. If your answer is "No", please provide alternative suggestions.

Yes. The definitions are sensible.

In relation to the definition of "Specialist Technology Products", please also refer to our response to Questions 3 and 11. The Exchange may wish to consider clarifying this definition to also include products / services that "may be derived directly or indirectly from" Specialist Technology.

Question 2
Do you agree with the list of Specialist Technology Industries and the respective acceptable sectors set out in paragraph 4 of the Draft Guidance Letter (Appendix V to the Consultation Paper)?

Yes

Please give reasons for your views. If your answer is "No", please provide alternative suggestions.

Yes. The list captures many industries, and it is a specified to be a non-exhaustive list, which would give the Exchange flexibility in future to review and amend it.

Question 3
Do you agree that the Exchange should take into account the factors set out in paragraph 107 of the Consultation Paper to determine whether a company is "primarily engaged" in the relevant business as referred to in the definition of "Specialist Technology Company"?

Yes

Please give reasons for your views.

Yes. A company may have multiple lines of business segments, and some of those segments may not be of relevance under this proposed regime, hence those portions of the company's business should be excluded when determining whether a company is primarily engaged in the relevant Specialist Technology Industries.

However, we would like to emphasise that the Exchange should take a holistic view of the applicant's business as a whole when determining whether a business segment falls under the "Specialist Technology" category. Although an applicant may clearly be developing its own Specialist Technology, their final product may be something conventional and normal, however, such companies should not be penalised and their products should be considered as Specialist Technology Products.

For example, assume an issuer is developing cutting edge artificial (AI) intelligence technology (i.e. Specialist Technology) to directly / indirectly produce traditional paintings or other artwork, which are then sold in conventional ways. The AI technology may not be sold and hence generates no revenue for the company. Although the artwork in itself is not an AI product, looking at the company holistically, the artwork should still be considered as a Specialist Technology Product as it was indirectly created by Specialist Technology. The revenue arising from the sale of the artwork should be considered as eligible revenue for the purposes of Question 11.

In addition, we note that even a single product / technology being developed by a Specialist Technology Company may straddle across more than one of the sub-sectors listed in the list of acceptable Specialist Technology Industries (for example, using AI to develop new food / agriculture technologies). We assume the Exchange will look at the product / technology holistically, and would not require the company to categorise its product / technology under one specific segment under the list of acceptable Specialist Technology Industries.

Question 4

Do you agree that the Exchange should retain the discretion to reject an application for listing from an applicant within an acceptable sector if it displays attributes inconsistent with the principles referred to in paragraph 101 of the Consultation Paper?

Yes

Please give reasons for your views.

Yes. The requirements set out in paragraph 101 are sensible, given that these companies can benefit from a lower (or no) revenue requirement when listing under the proposed regime.

Question 5

Do you agree that the Specialist Technology Regime should accommodate the listings of both Commercial Companies and Pre-Commercial Companies?

Yes

Please give reasons for your views.

Yes. Both types of companies should be given the opportunity to raise funds, so that they can continue growing. The list of Specialist Technology Industries is very wide, and companies in certain sectors will take longer to reach the point where they start generating revenue. But many of these companies have high growth potential, and they should equally be given the chance to raise funds to fuel their expansion further.

Some of these Pre-Commercial Companies will grow into Commercial Companies, and then transition into companies that can satisfy the basic financial requirements for listing under Chapter 8. Due to the unique nature of Specialist Technology Industries, the transition time may be quite short. The Exchange should seize the opportunity to allow such companies to list and raise funds in HK while they are in an earlier stage of growth -- otherwise, such companies can easily opt to list in more welcoming jurisdictions, and they are unlikely to transfer their listings to HK after they mature into established companies.

Allowing earlier-stage companies (relatively speaking) to list in HK would also increase the diversity and size of the HK ECM market, showcase HK's willingness to support companies in their growth and fundraising journey, and position HK as a more dynamic and progressive financial centre.

Question 6

Do you agree with the proposed approach to apply more stringent requirements to Pre-Commercial Companies?

Yes

Please give reasons for your views.

Yes, as the companies are in fundamentally different stages of development. Commercial Companies have successfully commercialised and proven their ability to generate a meaningful level of revenue post-commericalisation. On the contrary, the future of Pre-Commercial Companies remain speculative, as commercialisation may not be guaranteed, nor will commercialisation succeed to generate a meaningful level of revenue. More stringent requirements should apply to Pre-Commercial Companies due to shareholder protection purposes (especially since Hong Kong does not have a US style class action framework).

Question 7

Do you agree with the proposal that all investors, including retail investors, should be allowed to subscribe for, and trade in, the securities of Pre-Commercial Companies?

No

Please give reasons for your views.

No. We note that the Exchange has proposed many stringent requirements (as set out in paragraph 113 of its consultation paper) so that retail investors can participate in the trading of shares of Pre-Commercial Companies. However, the listing requirements are so extremely high, onerous and uncompetitive that it would not make HK a meaningful listing option for the vast majority of Pre-Commercial Companies.

In our view, the better approach is to exclude retail investors from subscribing / trading in the shares of Pre-Commercial Companies and relax the proposed listing requirements for Pre-Commercial Companies (however, maintaining a distinction with Commercial Companies – see Question 6), in order to facilitate more Pre-Commercial Companies listing in HK. This would give HK a chance to grow with such companies, which ultimately, in the long run, would increase the size and diversity of the HK ECM market, and benefit HK as a financial market as a whole. (see Question 5).

The technology that Pre-Commercial Companies are developing may not be easily understandable to most retail investors. The trading price of these companies may be very volatile, as the company may often encounter bumps on their road to commercialisation. There is no Competent Authority who may act as a final "arbiter" as to whether the technology involved has successfully reached certain milestones, which may cause even more speculation and extreme volatility in share prices. In addition, we recognise that not all Pre-Commercial Companies would be able to commercialise successfully, and those that do not may suffer a disproportionately large drop in their share price and investors may lose their investment in its entirety, and this event may not occur until "too late" as there is no Competent Authority to deliver any "negative" news earlier on. Due to the speculative nature of Pre-Commercial Companies, coupled with the lack of a Competent Authority for Specialist Technology industries generally, we do not believe retail investors should be allowed to subscribe and trade in the shares of Pre-Commercial Companies.

As explained in Question 9, we believe the market capitalisation requirement for Pre-Commercial Companies should be significantly reduced so that more companies would qualify to list, in order to create a practical route for such companies to list and develop a meaningful market for trading in the shares of such companies.

For the avoidance of doubt, we support that retail investors should be allowed to subscribe for and trade in the shares of Commercial Companies. Once Pre-Commercial companies mature and qualify as Commercial Companies, retail investors should be allowed to trade at this stage.

However, while we believe retail investors can be safely protected by excluding them from investing in the shares of Pre-Commercial Companies , we acknowledge that there are competing views in the market that retail investors should be allowed to invest in Pre-Commercial Companies, as long as the risks of investments in Pre-Commercial Companies are prominently highlighted and disclosed in the prospectus. This will expand the investor basis of the listed Pre-Commercial Companies and increase the liquidity of the traded stock, which is seen as a critical element in measuring the success of a stock exchange and market. In addition, the difficulties for retail investors to understand the technology that Pre-Commercial Companies are developing are not different from that in the context of Chapter 18A biotech companies, because even though the core products are beyond the concept stages as judged by the Competent Authority, there is no guarantee that the products will be successfully developed and commercialized, and such core products beyond concept stages are equally not easy for retail investors to understand. There should not be double standards being adopted for different sectors in the same market. For the avoidance of doubt, the view to permit retail investors to invest in Pre-Commercial Companies does not necessarily mean that the originally proposed listing requirements for Pre-Commercial Companies should be maintained. It is widely agreed by the market that the originally proposed listing requirements under this Consultation Paper are too stringent to attract a meaningful number of Specialist Technologies to list in Hong Kong. It is believed that the listing requirements should be significantly relaxed (as explained elsewhere in this response) while giving access to retail investors to participate in the growth prospect of the Pre-Commercial Companies.

Question 8

Do you agree that a Commercial Company applicant must have a minimum expected market capitalisation of HK$8 billion?

No

Please give reasons for your views.

No, unless the policy intention is for Chapter 18C to provide an exceptional route for a very limited number of Specialised Technology Companies to list in HK – courting the highest profile companies that have reached unicorn status, but may not yet meet the usual financial requirements for listing under Chapter 8.

If the policy intention is to capture listings of Specialised Technology Companies in a practical manner, inject diversity to the HK IPO market, and expand the HK ECM market, the proposed minimum expected market capitalisation of HK$8 billion is far too high. The high threshold means that many high quality companies may not be able to benefit from the proposed listing

regime. A high threshold will also reduce the competitiveness of the proposed Chapter 18C regime, as many companies with IPO funding needs would have listed in other jurisdictions before they are even eligible to list under Chapter 18C.

Assuming that the HK$250 million revenue requirement remains unchanged, the proposed HK$8 billion minimum expected market capitalisation means that the implied P/S ratio is 32x. A high P/S ratio requirement at the time of listing may not necessarily be positive for the market, as a high P/S ratio may indicate that a stock is overvalued at IPO, which may lead to poor stock price performance post-listing.

When evaluating the minimum market capitalisation requirement solely on its own without consideration of other factors, we note that a HK$8 billion requirement is significantly higher than all other major markets (as set out in Appendix II to the consultation paper). This would reduce HK's competitiveness and attractiveness as a listing venue for high growth companies.

In our experience, a Specialised Technology industry company that can meet the HK$250 million revenue requirement generally indicates that it is a solid company that has been able to commercialise reasonably successfully. If the Exchange wishes to expand and diversify the HK IPO market and capture more listings of such companies, we would suggest lowering the minimum expected market capitalisation to HK$5 billion. A requirement of HK$5 billion means that the implied P/S ratio is 20x, which is a much more reasonable P/S ratio. We also note that a HK$5 billion requirement is, without consideration of other factors, higher than the market capitalisation requirement of the other financial eligibility tests in Chapter 8. The foregoing, combined with the restriction that the company's business has to fall under a Specialist Technology Industry, would justify lowering the revenue requirement for Specialist Technology Companies listing under Chapter 18C.

Question 9

Do you agree that a Pre-Commercial Company applicant must have a minimum expected market capitalisation of HK$15 billion at listing?

No

Please give reasons for your views.

No, unless the policy intention is to only allow the largest and most high profile Pre-Commercial Companies to list.

Although we agree that the minimum market capitalisation applicable to Pre-Commercial Companies should be higher than Commercial Companies, however, the proposed HK$15 billion threshold appears to be far too high. The proposed threshold is 10 times higher than the

requirement for Chapter 18A biotech companies (which may be pre-revenue companies), which appears disproportionately high even when taking into account that Specialist Technology Companies are not normally regulated by equivalent Competent Authorities. Such a high threshold will reduce the competitiveness of the proposed Chapter 18C regime and attractiveness of Hong Kong as a practical listing venue, as very few Pre-Commercial Companies would be eligible.

We proposed to reduce the minimum market capitalisation requirement applicable to Commercial Companies to HK$5 billion (see Question 8). We think that the requirement applicable to Pre-Commercial Companies should not be more than double that (i.e. no higher than HK$10 billion). In fact, we believe if a Pre-Commercial Company can demand a valuation at market capitalization of the range of HK$8 billion, it is already quite a sizable and mature company, as many applicants relying on profit test to list on the Main Board of the Hong Kong Stock Exchange only have market capitalization of HK$1-2 billion at the time of listing.

Question 10

Do you agree that a Commercial Company must have revenue of at least HK$250 million for the most recent audited financial year?

Yes

Please give reasons for your views.

Yes. If one were to evaluate the HK$250 million revenue requirement solely on its own without consideration of other factors, the proposed figure appears to be reasonable when benchmarked against other major listing venues.

Question 11

Do you agree that only the revenue arising from the applicant's Specialist Technology business segment(s) (excluding any inter-segmental revenue from other business segments of the applicant), and not items of revenue and gains that arise incidentally, or from other businesses, should be recognised for the purpose of the Commercialisation Revenue Threshold?

Yes

Please give reasons for your views.

Yes, given that these companies can benefit from a lower revenue requirement when listing under the proposed regime. Please also refer to our comments in Question 3 regarding assessing a Specialist Technology Company in a holistic manner especially when (i) considering the connection between the Specialist Technology and the final product sold by the company and (ii) its business straddles more than one Specialist Technology Industries.

Question 12(a)

Do you agree that a Commercial Company must demonstrate year-on-year growth of revenue derived from the sales of Specialist Technology Product(s) throughout the track record period, with allowance for temporary declines in revenue due to economic, market or industry-wide conditions?

Yes

Please give reasons for your views.

Yes. The proposed approach gives the discretion for the Exchange to list Specialist Technology Companies even if they are unable to demonstrate year-on-year revenue growth.

Question 12(b)

Do you agree that the reasons for, and remedial steps taken (or to be taken) to address, any downward trend in a Commercial Company's annual revenue must be explained to the Exchange's satisfaction and disclosed in the Listing Document?

Yes

Please give reasons for your views.

Please refer to our response to Question 12(a).

Question 13

Do you agree that a Specialist Technology Company listing applicant must have been engaged in R&D of its Specialist Technology Product(s) for a minimum of three financial years prior to listing?

Yes

Please give reasons for your views.

Yes. The nature of the industries covered under the definition of Specialist Technology means that the applicant should have been engaged in R&D of their Specialist Technology Products during the track record period.

Question 14(a)

Do you agree that, for a Commercial Company, its total amount of R&D investment must constitute at least 15% of its total operating expenditure for each of its three financial years prior to listing?

No

Please give reasons for your views.

No. Capital intensive industries or earlier stage companies may spend more on R&D. As the definition of Specialist Technology covers many sectors, and companies that are targeted under the proposed regime may be at different stages of early growth, a bright line test regarding R&D spend may not be appropriate as it may exclude certain companies worthy of listing (especially since the proposed 50% requirement is quite a high percentage). In addition, pre-revenue companies listing under Chapter 18A are not subject to comparable rules.

We are also not aware of equivalent requirements in other major listing venues (although we note that the PRC STAR Market requires R&D expenditure of at least 5%-10% of revenue (rather than expenditure) depending on sector).

We think it would be more appropriate to change the proposal to require applicants to demonstrate that they have been primarily engaged in R&D for the purposes of developing its Specialist Technology Products throughout its track record period, without mandating a specific expenditure ratio.

Question 14(b)

Do you agree that, for a Pre-Commercial Company, its total amount of R&D investment must constitute at least 50% of its total operating expenditure for each of its three financial years prior to listing?

No

Please give reasons for your views.

Please refer to our response to Question 14(a).

Question 15

Do you agree with the proposed method for determining the amount of qualifying R&D investment and the total operating expenditure as set out in paragraph 141 of the Consultation Paper?

Yes

Please give reasons for your views.

Yes. It is appropriate to carve out expenses that are not directly related to R&D activities.

Question 16

Do you agree that a Specialist Technology Company listing applicant must have been in operation in its current line of business for at least three financial years prior to listing under substantially the same management?

Yes

Please give reasons for your views.

Yes. This is in line with the approach adopted for listings under Chapter 8.

Question 17

Do you agree that there must be ownership continuity and control for a Specialist Technology Company listing applicant in the 12 months prior to the date of the listing application?

Yes

Please give reasons for your views.

Yes. This is similar to the approach adopted for listings under Chapter 8 and Chapter 18A.

Question 18

Do you agree that an applicant applying to list under the proposed regime must have received meaningful investment from Sophisticated Independent Investors (SIIs)?

Yes

Please give reasons for your views.

Yes. The technology that Pre-Commercial Companies are developing may not be easily understandable to many investors, making valuation difficult. This is especially the case for Pre-Commercial Companies. The investment by one or more SIIs may help mitigate valuation concerns, as the SIIs have the resources and expertise to conduct detailed due diligence prior to making their investment. The presence of one or more SIIs may also assure other potential investors that the relevant company is investment-worthy.

Question 19

Do you agree with the independence requirements for a Sophisticated Independent Investor as set out in paragraphs 155 to 157 of the Consultation Paper?

Yes

Please give reasons for your views.

Yes. Mandating an independence requirement would serve as a safeguard to support the valuation of the relevant Chapter 18C company.

Question 20

Do you agree with the proposed definition of a sophisticated investor (including the definition of investment portfolio) as set out in paragraphs 159 to 162 of the Consultation

Paper?

Yes

Please give reasons for your views.

Yes. Although the Exchange has listed out some concrete examples of sophisticated investors for illustrative purposes, the assessment of whether an investor is actually a sophisticated investor is ultimately determined on a case by case basis with reference to a number of factors. The factors are quite broad, and should be able to cater to scenarios that do not fall under the examples in paragraph 160 (for example, a smaller fund that does not reach the specified fund size threshold in paragraph 160, but has expertise and focuses on investments in the particular sub-sector of Specialist Technology that is the business of the listing applicant (rather than other different sectors of Specialist Technology), may qualify as a sophisticated investor).

Question 21

Do you agree that as an indicative benchmark for meaningful investment, an applicant should have received third party investment from at least two Sophisticated Independent Investors who have invested at least 12 months before the date of the listing application, each holding such amount of shares or securities convertible into shares equivalent to 5% or more of the issued share capital of the listing applicant as at the date of listing application and throughout the pre-application 12-month period?

No

Please give reasons for your views.

No. We believe the presence of one such Pathfinder SII is sufficient for the purpose of ensuring that the listing applicant has been subject to extensive due diligence by an investor with the necessary resources. It may be difficult for there to be two or more investors, who both qualify as SIIs and who both hold 5% or more of the shares of the listing applicant at the date of the listing application and throughout the pre-application 12-month period for the reasons below:

i. a high hurdle needs to be reached in order for an investor to qualify as a SII (we note that the fund size threshold can be as high as HK$15 billion, which is much higher than the HK$1 billion threshold applicable to "Sophisticated Investors" required under Chapter 18A);

ii. the controlling shareholder of the applicant would not be considered independent, which means earlier stage investors who acquired large controlling stakes (for a relatively lower price) in the listing applicant would not qualify as a SII (we note that it may be possible for substantial shareholders in certain circumstances to qualify as SIIs); and

iii. later stage investors are likely to have to pay a higher price per share for their stake, hence there may not be many later-stage SIIs who have the appetite to hold 5% or more of the

company, given the large size (in terms of minimum market capitalisation) of the listing applicant.

In addition, the 5% threshold appears to be quite high, especially based on the Exchange's proposed minimum market capitalisation of the listing applicant. We believe it should be reduced to 3%. The threshold should be reduced progressively depending on the market capitalisation of the listing applicant – the higher the market capitalisation, the lower the threshold should be.

Question 22

Do you agree that as an indicative benchmark for meaningful investment, the aggregate investment from all Sophisticated Independent Investors should result in them holding such amount of shares or securities convertible into shares equivalent to at least such percentage of the issued share capital of the applicant at the time of listing as set out in Table 4 and paragraph 168 of the Consultation Paper?

No

Please give reasons for your views.

No. Although we agree there should be a requirement for minimum total investment from all SIIs, and that the minimum requirement should be higher for Pre-Commercial Companies, we believe the figures set out in Table 4 are too high, especially since the Exchange has proposed a very high minimum market capitalisation requirement for Chapter 18C companies. In addition, a high hurdle needs to be reached in order for an investor to qualify as a SII.

As we believe one Pathfinder SII is sufficient (see Question 21), we believe the figures in Table 4 should be reduced correspondingly by at least 5%. A further corresponding reduction should be made if the 5% shareholding threshold for Pathfinder SIIs is further reduced.

Question 23

Do you agree that a Pre-Commercial Company applicant must have as its primary reason for listing the raising of funds for the R&D of, and the manufacturing and/or sales and marketing of, its Specialist Technology Product(s) to bring them to commercialisation and achieving the Commercialisation Revenue Threshold?

Yes

Please give reasons for your views.

Yes. As these companies may be generating little revenue (or even none), this should be made a requirement to justify its listing. This is also in line with the approach for Chapter 18A

companies.

Question 24

Do you agree that a Pre-Commercial Company applicant must demonstrate to the Exchange, and disclose in its Listing Document, a credible path to the commercialisation of its Specialist Technology Products, appropriate to the relevant Specialist Technology Industry, that will result in it achieving the Commercialisation Revenue Threshold?

Yes

Please give reasons for your views.

Yes. This is required in order to support the company's primary reason for listing (see Question 23).

Question 25

Do you agree with the examples proposed in paragraphs 176 to 179 (including the definition of "highly reputable customer") of the Consultation Paper that a Pre-Commercial Company applicant could use to demonstrate a credible path to achieving the Commercialisation Revenue Threshold?

Yes

Please give reasons for your views.

Yes. We note that the examples given are just illustrations of how a company can demonstrate a credible path to reaching the Commercialisation Revenue Threshold, and that the Exchange retains the discretion of deciding whether other types of evidence would be acceptable to demonstrate a credible path to reaching the Commercialisation Revenue Threshold.

However, the examples given seem to suggest that a Pre-Commercial Company would need to reach the Commercialisation Revenue Threshold generally within 24 months of listing (for example, (i) the suggestion that a substantial portion of the contract value would be realisable within 24 months of listing, and (ii) the requirement that the contract is with a "highly reputable customer" if the contract is more than 24 months).

We hope the Exchange can clarify that there is no requirement that a company needs to reach the Commercialisation Revenue Threshold within 24 months of listing.

Pre-Commercial Companies may be in different stages of commercialisation – for example, one may be generating revenue that is just below the $250 million requirement for Commercial Companies, while others may be generating little or no revenue. The latter company may take a longer time to reach the Commercialisation Revenue Threshold. However, this should not

hinder the company to list under Chapter 18C, otherwise, this will reduce the attractiveness of Chapter 18C and will not make HK a competitive destination for such listing.

Question 26(a)

Do you agree that a Pre-Commercial Company applicant must explain and disclose, in detail, the timeframe for, and impediments to, achieving the Commercialisation Revenue Threshold?

Yes

Please give reasons for your views.

Yes. These are important matters that should be disclosed.

Question 26(b)

Do you agree that a Pre-Commercial Company applicant must, if its working capital (after taking into account the listing proceeds) is insufficient to meet its needs before it achieves the Commercialisation Revenue Threshold, describe the potential funding gap and how it plans to further finance its path to achieving the Commercialisation Revenue Threshold after listing?

Yes

Please give reasons for your views.

Please refer to our response to Question 26(a).

Question 27

Do you agree that a Pre-Commercial Company applicant must have available working capital to cover at least 125% of its group's costs for at least the next 12 months (after taking into account the IPO proceeds of the applicant), and these costs must substantially consist of the following: (a) general, administrative and operating costs; and (b) R&D costs?

Yes

Please give reasons for your views.

Yes. This is in line with the approach for Chapter 18A companies.

Question 28

Do you agree that Independent Institutional Investors should be given a minimum allocation of offer shares in the IPO of Specialist Technology Companies to help ensure a robust price discovery process?

Yes

Please give reasons for your views.

Yes. As it may be difficult to value Specialist Technology Companies, we agree that at least 50% of the total IPO shares should be allocated to Independent Institutional Investors (in the case of Commercial Companies). However, we think it may be prudent to include some requirements to ensure that the 50% of shares are held by a meaningful number of institutional investors, especially for liquidity reasons (see Question 36). On the other hand, we also acknowledge there are competing views in the market that the 50% allocation to Independent Institutional Investors is too high and will limit liquidity of shares, and that retail investors should be allowed to participate more, as long as the risks of investments in companies of this nature are prominently highlighted and disclosed in the prospectus. This is particular true for companies which have larger market capitalization—for this type of large cap companies, the minimum of 50% allocation to Independent Institutional Investors shall be further reduced to 40% or 30% in order to allow wider spread of investors basis and active trading of the listed stocks. There have been market concern if the shares are too concentrated on a number of large Independent Institutional Investors, the market price may not truly reflect the intrinsic value of the shares.

Question 29

Do you agree with the definition of Independent Institutional Investors as set out in paragraphs 201 to 202 of the Consultation Paper?

Yes

Please give reasons for your views. Please provide any alternative definition you believe appropriate with reasons for your suggestions.

Yes. The independence criteria is reasonable, and the definition of "Institutional Investors" is in line with the approach adopted for Chapter 18B companies.

Question 30

Do you agree that a Specialist Technology Company must, in addition to meeting the existing requirements on public float, ensure that at least 50% of the total number of shares offered in the initial public offering (excluding any shares to be issued pursuant to the exercise of any over-allotment option) must be taken up by Independent Institutional Investors?

Yes

Please give reasons for your views.

Yes, but subject to the response in Question 28.

Question 31

Do you agree that in the case where a Specialist Technology Company is listed by way of a De-SPAC Transaction, at least 50% of the total number of shares issued by the Successor Company as part of the De-SPAC Transaction (excluding any shares issued to the existing shareholders of the De-SPAC Target as consideration for acquiring the De-SPAC Target) must be taken up by Independent Institutional Investors?

Yes

Please give reasons for your views.

Yes. The approach applicable in a De-SPAC transaction should be aligned to the approach adopted for Chapter 18C companies, as the underlying transaction is the same (i.e. a listing of a Specialist Technology Company).

Question 32

Do you agree that in the case of a Specialist Technology Company seeking to list by introduction, the Exchange will consider granting waivers, on a case-by-case basis, from the requirement for the minimum allocation of offer shares to Independent Institutional Investors, if the applicant is able to demonstrate that it is expected to meet the applicable minimum market capitalisation at the time of listing (see paragraph 120 of the Consultation Paper), having regard to its historical trading price (for at least a six-month period) on a Recognised Stock Exchange with sufficient liquidity and a large investor base (a substantial portion of which are independent Institutional Professional Investors)?

Yes

Please give reasons for your views.

Yes. This is because the listing applicant is able to provide information regarding its investor base to support its waiver application.

Question 33

Do you agree that there should be a new initial retail allocation and clawback mechanism for Specialist Technology Companies to help ensure a robust price discovery process?

Yes

Please give reasons for your views.

Yes--as we agree in general that a higher proportion of IPO shares should be allocated to Independent Institutional Investors (see Question 28), it is reasonable to set out a new initial retail allocation and clawback mechanism.

Question 34

Do you agree with the proposed initial allocation and clawback mechanism for Specialist

Technology Companies as set out in paragraph 205 of the Consultation Paper?

No

Please give reasons for your views. If your answer is "No", please provide alternative suggestions and provide reasons for your suggestions.

No. This is because we are of the view that the minimum market capitalisation requirement should be reduced (see Question 8) and because of the requirement that at least 50% of the total IPO shares must be taken up by Independent Institutional Investors (see Question 28). We think there is room to increase the figures from 5% to 10% (in the case of the initial allocation), from 10% to 15% (in the case of 10x to less than 50x oversubscription) and from 20% to 30% (in the case of 50x or more oversubscription).

In addition, we acknowledge there are competing views in the market that the 50% allocation to Independent Institutional Investors is too high and will limit liquidity of shares, and that retail investors should be allowed to participate more, as long as the risks of investments in companies of this nature are prominently highlighted and disclosed in the prospectus. If this line of thinking is adopted, the proportion of shares allocated to retail investors should be higher than what is set out in paragraph 205.

Question 35

Do you agree that a Specialist Technology Company seeking an initial listing must ensure that a portion of its issued shares with a market capitalisation of at least HK$600 million is free from any disposal restrictions (whether under: contract; the Listing Rules; applicable laws; or otherwise) upon listing (referred to as its "free float")?

No

Please give reasons for your views.

No. We agree that a Specialist Technology Company seeking an initial listing must ensure that a portion of its issued shares is free from any disposal restrictions (to ensure liquidity in its shares to aid price-discovery post-listing). However, as we believe the minimum capitalisation requirement should be reduced from HK$8 billion to HK5 billion (see Question 8), we believe that the "free float" should be correspondingly reduced to HK$375 million.

Question 36

Do you agree that the Exchange should reserve the right not to approve the listing of a Specialist Technology Company if it believes the company's offer size is not significant enough to facilitate post-listing liquidity, or may otherwise give rise to orderly market concerns?

Yes

Please give reasons for your views.

Yes. An IPO with a small offer size will raise concerns as to whether the bookbuilding process is robust enough to aid proper price discovery.

As a related point, the Exchange may also consider setting a minimum number of shareholders for Commercial Companies, both at listing and post-listing, to ensure there is a meaningful spread of investors on the institutional side. We note the requirement to have Pathfinder SIIs (each holding at least 5% of the shares), SIIs (together with the Pathfinder SIIs, holding at least 20% of the shares), and Independent institutional investors (together with the SIIs (except Pathfinder SIIs and other SIIs in certain circumstances), holding at least 50% of the shares). Given these requirements, in extreme cases, half the IPO shares of Commercial Companies would be concentrated in the hands of a small number of institutional investors.

Question 37

Do you agree that a Specialist Technology Company applicant's Listing Document must include the additional information set out in paragraph 32 of the Draft Guidance Letter (Appendix V of the Consultation Paper) due to it being a Specialist Technology Company?

Yes

Please give reasons for your views.

Yes. These are key matters that should be disclosed in the listing document so investors can properly assess the company.

Question 38

Do you have any other suggestions for additional information that a Specialist Technology Company should include in its Listing Document in order to allow an investor to properly assess and value the company?

No

If so, please provide your suggestion.

Question 39

Do you agree that existing shareholders should be allowed to participate in the IPO of a Specialist Technology Company provided that the company complies with the existing public float requirement under Rule 8.08(1), the requirement for minimum allocation to Independent Institutional Investors (see paragraph 200 of the Consultation Paper) and

the minimum free float requirement (see paragraph 207 of the Consultation Paper)?

Yes

Please give reasons for your views.

Yes. The approach is also in line with Chapter 18A companies. Participation by existing shareholders in the IPO may demonstrate their confidence in the long term prospects of the company, which is critical for Specialist Technology Companies, as they still are (relatively speaking) at an early stage of development.

Question 40
Do you agree with the proposals set out in paragraph 225 of the Consultation Paper regarding the conditions for existing shareholders subscribing for shares in an IPO?

Yes

Please give reasons for your views.

Yes. See response in Question 39.

Question 41(a)
Do you agree that the controlling shareholders of a Commercial Company should be subject to a lock-up period of 12 months?

No

Please give reasons for your views.

No. We believe a distinction should be made between a controlling shareholder akin to a founder / key person and those that are genuine pre-IPO investors.

It is necessary for the former to be subject to a longer lock-up period as proposed above. We note that the lock-up period mirrors the lock-up period applicable to key persons (see Question 43). As Specialist Technology Companies are meant to be high growth companies conducting R&D into technology that is not necessarily proven (relatively speaking), persons critical to the R&D of the company should be incentivised to stay with the company to continue conducting R&D to ensure its long term growth.

However, genuine pre-IPO investors who are controlling shareholders should not be subject to restrictions over and above what currently applies to controlling shareholders of regular listed companies (i.e. Listing Rule 10.07). There is no reason why investors of Specialist Technology Companies should be treated differently from investors of regular companies – they run a business of investing into companies, and should have the flexibility to exit the listed company (either fully or partially) after the usual lock-period for commercial reasons in their interest

(which may not necessarily be in the listed company's interest). If a longer lock-up period is imposed, it may disincentive long-term controlling investors of Specialist Technology Companies to select HK as a listing destination, which would make Chapter 18C less competitive compared to other jurisdictions, particularly the US.

Question 41(b)

Do you agree that the controlling shareholders of a Pre-Commercial Company should be subject to a lock-up period of 24 months?

No

Please give reasons for your views.

Please refer to our response to Question 41(a).

Question 42

Do you agree with the scope of key persons (as described in paragraph 242 of the Consultation Paper) that should be subject to a restriction on the disposal of their holdings after listing?

Yes

Please give reasons for your views.

Yes. These persons are key to the continue R&D efforts of the company and they should be subject to a longer lock-up period for the reasons mentioned in Question 41.

Question 43(a)

Do you agree with the proposed lock-up periods on the securities of such key persons and their close associates of 12 months for a Commercial Company?

Yes

Please give reasons for your views.

Yes. The lock-up period is already significantly longer than what currently applies to regular listed companies. This should ensure the stability of the R&D efforts of the relevant company in the near term.

Question 43(b)

Do you agree with the proposed lock-up periods on the securities of such key persons and their close associates of 24 months for a Pre-Commercial Company?

Yes

Please give reasons for your views.

Please refer to our response to Question 43(a).

Question 44(a)

Do you agree with the proposed lock-up period on the securities of Pathfinders SIIs of six months for a Commercial Company?

No

Please give reasons for your views.

No. As Pathfinder SIIs are required to hold the listing applicant's shares for at least 12 months before the date of the listing application, they are likely to be shareholders that had invested into the company at a relatively early stage. Based on the proposed criteria of Pathfinder SIIs, they are most likely to be entities that run a business of investing into companies and at most, a substantial (but not controlling) shareholder of the Specialist Technology Company. Such shareholders are likely to want maximum flexibility to exit their investment (either partially or in whole) post-IPO. A regulatory lock-up will not be attractive to such shareholders.

Substantial shareholders of regular listed companies are not subject to any regulatory lock-up. The approach should be the same for Pathfinder SIIs. Otherwise, it may be difficult for a listing applicant to find shareholders willing to act as Pathfinder SIIs, which may make the Chapter 18C listing route less attractive for Specialist Technology Companies.

It is noted that many underwriters would require a voluntary lock-up from some or all of the existing shareholders (including pre-IPO investors) for around 6 months post-listing to avoid excessive shares being sold immediately after an IPO. Given the special status that Pathfinder SIIs hold as "flagship" shareholders of the Specialist Technology Company, it is likely they will be subject to a contractual lock-up. Hence, it is unnecessary to require them to be subject to a regulatory lock-up.

In the event that a Pathfinder SII has a role similar to a founder / key person (which may be a possibility if it were a key participant in a relevant upstream / downstream industry), then they would, in any event, be subject to the extended lock-up period applicable to founders (see Questions 42 and 43).

Question 44(b)

Do you agree with the proposed lock-up period on the securities of Pathfinders SIIs of 12 months for a Pre-Commercial Company?

No

Please give reasons for your views.

Please refer to our response to Question 44(a).

Question 45

Do you agree that controlling shareholders, key persons and Pathfinder SIIs should be permitted (in accordance with current Rules and guidance) to sell their securities prior to an IPO and offer them for sale in the IPO, such that only the securities retained by them after listing would be subject to the lock-up restrictions?

Yes

Please give reasons for your views.

Yes. This is consistent with the position applicable to controlling shareholders – they are allowed to sell down prior to a IPO to minimize the number of shares subject to the lock-up. Investors have the legitimate right to realise their investments prior to an IPO – as long as the sell-down is properly disclosed in the prospectus, potential IPO investors can decide whether or not they would like to invest into the company's IPO.

Question 46

Do you agree that any deemed disposal of securities by a person resulting from the allotment, grant or issue of new securities by a Specialist Technology Company during a lock-up period would not constitute a breach of the lock-up requirements?

Yes

Please give reasons for your views.

Yes. Specialist Technology Companies are likely to have continuous funding needs and may need to issue new shares post-IPO to raise funds. The need to raise funds may be beyond the control of the persons subject to a lock-up, and such persons may not necessarily have the appetite to invest further money into the company. Treating any deemed disposal as a breach of the lock-up restrictions would be unfair to such shareholders.

Question 47

Do you agree that a lock-up period in force at the time of the removal of designation as a Pre-Commercial Company should continue to apply unchanged?

Yes

Please give reasons for your views.

Yes. IPO investors invested into the company on the basis that certain persons would be subject to a lock-up for a specific period of time. The lock-up period should not be reduced just because the company transitioned from a Pre-Commercial Company to a Commercial Company, especially since the time needed for a company to make the transition may differ from one company to another. It would be unfair to IPO investors if the lock-up period were uncertain and could potentially expire early. It would also be unfair to shareholders of other Pre-Commercial Companies who are subject to the full lock-up period.

Question 48

Do you agree that a Specialist Technology Company must disclose in its Listing Document the total number of securities in the issuer held by the persons (as identified in the Listing Document) that are subject to the lock-up requirements under the Listing Rules, and that the same information must also be disclosed in the interim and annual reports of the Specialist Technology Company for so long as such persons remain as a shareholder?

Yes

Please give reasons for your views.

Yes. These matters should be disclosed even after the lock-up period has ended. This would allow investors to gauge the extent of certain key shareholders' (i.e. those who were originally subject to a lock-up) commitment to, and confidence in, the company.

Question 49

Do you agree with the scope of the additional disclosure in the interim and annual reports of Pre-Commercial Companies as set out in paragraphs 262 and 263 of the Consultation Paper?

Yes

Please give reasons for your views. If your answer is "No", please provide alternative suggestions and provide reasons for your suggestions.

Yes. These are important matters to be disclosed, and the information should be disclosed by reference to what was originally disclosed in the listing document. This would enable investors to assess the company's development, and whether the company is tracking the milestones and other indicators disclosed in the listing document in relation to R&D, commercialisation and timeframes.

Question 50

Do you agree that only Pre-Commercial Companies should be subject to the ongoing disclosure requirements referred to in Question 49?

Yes

Please give reasons for your views.

Yes. The ongoing disclosure requirements are critical for Pre-Commercial Companies as they have not reached a meaningful level of commercialisation, unlike Commercial Companies.

Question 51

Do you agree that Pre-Commercial Companies should be subject to a remedial period of 12 months to re-comply with the sufficiency of operations and assets requirement before delisting, in the event that the Exchange considers that a Pre-Commercial Company has failed to meet its continuing obligation to maintain sufficient operations or assets?

Yes

Please give reasons for your views.

Yes. It is appropriate for the remedial period for Pre-Commercial Companies to be aligned with the 12 month period applicable to Chapter 18A companies, rather than the 18 month period applicable to regular companies.

Question 52

Do you agree that Pre-Commercial Companies must not effect any transaction that would result in a fundamental change to their principal business without the prior consent of the Exchange?

Yes

Please give reasons for your views.

Yes. This requirement is in line with the approach adopted for Chapter 18A companies.

Question 53

Do you agree that Pre-Commercial Companies must be prominently identified through a "PC" marker at the end of their stock names?

Yes

Please give reasons for your views.

Yes. This requirement is in line with the approach adopted for other "special" listings such as biotech companies and companies with weighted voting rights.

We also suggest that the Exchange should maintain a publicly available consolidated list of Commercial Companies for transparency reasons (as these companies will not be identified

with a special marker at the end of their stock name), and the date when they ceased to be treated a Commercial Company.

Question 54

Do you agree that the continuing obligations for Pre-Commercial Companies no longer apply once a Pre-Commercial Company has met the requirements in paragraph 270 of the Consultation Paper and ceases to be regarded as a Pre-Commercial Company?

Yes

Please give reasons for your views.

Yes. The additional continuing obligations are imposed on Pre-Commercial Companies primarily to allow investors to track their development more easily, as they have not reached a meaningful level of commercialisation. This also distinguishes their listings from Commercial Companies. These additional requirements should fall away once the company has reached a meaningful level of commercialisation and qualifies as Commercial Company.

Question 55

Do you agree with the proposed requirements for Pre-Commercial Companies to demonstrate to the Exchange that they should no longer be regarded as a Pre-Commercial Company (see paragraphs 269 to 272 of the Consultation Paper)?

Yes

Please give reasons for your views.

Yes. We believe that, once these companies hit the Commercialisation Revenue Threshold, they should be obliged to apply to the Exchange to cease to be regarded as a Pre-Commercial Company. They should not intentionally wait until they are able to reach the Main Board Eligibility Tests before making such an application. In this connection, we also note that the proposed requirement for a Pre-Commercial Company to provide published audited financial statements to the Exchange in order to support its application of switch is reasonable and not unduly burdensome.