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Corporate and Investor Communications Department
Hong Kong Exchanges and Clearing Limited
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Central, Hong Kong




December 17, 2022

Dear Sirs/ Madams,

Subject : Response to the Consultation Paper on the Listing Regime for Specialist Technology Companies issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

Respondent : 

1. Introduction

- 1.1. We refer to the consultation paper published by the Stock Exchange on October 19, 2022 (the “**Consultation Paper**”) in relation to a new listing regime for Specialist Technology Companies (the “**Chapter 18C Listing Regime**”). This written response is made by  for and on behalf of 
, a potential listing applicant under the Chapter 18C Listing Regime (the “**Company**”). Unless otherwise defined herein, capitalized terms shall have the same meaning as those defined in the Consultation Paper.
- 1.2. According to the Consultation Paper, Specialist Technology Companies currently encounter difficulties in satisfying the Main Board financial eligibility requirements under Rule 8.05 of the Listing Rules. Therefore, the Stock Exchange proposes to introduce Chapter 18C to the Listing Rules, aiming at enabling the listing of Specialist Technology Companies on the Main Board of the Stock Exchange under a separate regime.

- 1.3. While the Company welcomes the Stock Exchange’s proposals for implementing a new listing regime for technology companies to go public in Hong Kong. Having made due consideration and take into account the factual situation of the Company, being a potential listing applicant under the Chapter 18C Listing Regime, the Company is not supportive of certain proposals (the “**Proposals**”) as set out in the Consultation Paper with the reasoning set out in this submission.

2. Background of the Company

- 2.1. The Company, being a typical homegrown company incorporated in Hong Kong with operating track records for over 20 years, has been known as the world’s leading all-media big-data smart business intelligence solution service provider. Leveraging on the Company’s core artificial intelligence technology (i.e., natural language procession and visual recognition) on unstructured big-data processing, value-mining and analysing, the Company provides smart business intelligence products and solutions to more than 2,500 clients across different sectors around the world, including but not limited to finance, automobile, luxury and also the government.
- 2.2. The Company is confident that it qualifies as a Specialist Technology Company under the Chapter 18C Listing Regime on the basis that it has been principally engaged in the research and development of cloud-based services (i.e., all-media big-data solutions service) and artificial intelligence applications (i.e., natural language procession and visual recognition).
- 2.3. Further, the success of the Company has been recognized by the fact that it has gone through multiple rounds of private equity investment over the past 20 years from reputable independent investors, including but not limited to leading Asian private equity firm, global venture capital firm, leading Fortune 500 global trading and business investment company and last but not least, the Hong Kong government.
- 2.4. Financially, (a) the Company maintains a steady year-to-year revenue growth rate and record a revenue of approximately HK\$400 million for the financial year ended 2022 and (b) the research and development investment constitutes a substantial portion of the total operating expenditure for the financial years ended 2021 and 2022.

3. Response to the Proposals

Question 8: Do you agree that a Commercial Company applicant must have a minimum expected market capitalization of HK\$8 billion at listing?

- 3.1. The Company submits that it disagrees with the proposal that a Commercial Company applicant must have a minimum expected market capitalization of HK\$8 billion at listing with the reasons and recommendations set forth below.
- 3.2. First, the proposed minimum expected market capitalization requirement is the most stringent one among peers. It is noted that the minimum expected market capitalization of HK\$8 billion is set with reference to the level at which a company would be considered as a “unicorn” within the specific Specialist Technology Industry (i.e., companies with a valuation of over US\$1 billion). However, as set out in Table 3 in the Consultation Paper, the non-profit based and non-cashflow based financial eligibility tests for listings on selected securities markets in the United States, Mainland China, Singapore and the United Kingdom are much more lenient than those set out in the Proposals. Among all the market capitalization requirements of the selected securities markets in the globe, save and except for certain listing criterion for the NASDAQ Global Market and the STAR Market, all of them are all below HK\$2 billion. For instance, a PRC domestic enterprise with substantial research & development investment (similar to the requirement under the Chapter 18C Listing Regime) that wishes to list on the STAR Market only requires for an expected market capitalization of approximately RMB1.5 billion. Therefore, the Stock Exchange’s proposed minimum expected market capitalization of HK\$8 billion for Commercial Companies represents approximately 4 to 27 times of the requirements of its global competitors.
- 3.3. An exceptionally stringent minimum expected market capitalization requirement will only push away potential listing applicants from the Stock Exchange to seek for listing opportunity on other securities markets with more lenient market capitalization requirement, in particular during economic downturns in the following years. Historically, technology companies in Hong Kong and Mainland China considered not only the Stock Exchange, but also other global and reputable securities exchange with more lenient listing criterion in the United States and Mainland China. In fact, the Company is also debating internally whether to go listing on the Stock Exchange under the new Chapter 18C Listing Regime or choosing other securities exchanges such as the NASDAQ and the STAR Market. As the Stock Exchange is facing more and more intense competition in chasing the technology companies that represent the future, the Stock Exchange may want to consider setting a more comparable and diversified, if not the most lenient, listing requirements for Specialist Technology Companies so as to stand out from its global competitors. An unreasonably high standard will only defeat the whole purpose of proposing the new regime.
- 3.4. Second, a high expected market capitalization requirement fails to take into account the current macroeconomic situation. The valuation of a company is subject to the

influence of a series of external factors that are unrelated to the applicant's fundamentals, for example, geopolitical and economic conditions, market sentiment and confidence. As such, while the global stock market, including the Hong Kong stock market, has been volatile since the second half of 2021 due to various geopolitical and economic factors, the concerns and anxiety over the global economy are directly translated to stock valuation and can be commonly seen in both listed companies and initial public offerings. Therefore, the true value and potential of a company will be underestimated by the market during economic downturn and the market valuation is unable to reflect the true value and potential of a listing applicant.

- 3.5. The Company has identified certain listed companies in the Specialist Technology Industries for illustration purpose. Given the current stock market conditions, and uncertainties to the macroeconomic and geopolitical situations, the financial performance of a majority of such listed issuers have been adversely affected since early 2021 where their respective market capitalization has peaked out and a large number of companies have market capitalization fallen below HK\$8 billion. The following table sets forth the market capitalization of selected issuers in the Specialist Technology Industries at the time of their listing and as of December 9, 2022. It is noted that the market capitalization of these selected listed issuers experienced a sharp decline to a level that is no longer supported by the proposed HK\$8 billion threshold (or just marginally above the HK\$8 billion threshold). To conclude, should the proposed HK\$8 billion threshold remain unchanged, it is believed that many promising Specialist Technology companies will be excluded as potential issuers.

Company	Place of listing	Market Capitalization at the time of listing	P/S at the time of listing	Market Capitalization as of December 9, 2022	P/S ratio as of December 9, 2022	Percentage of fluctuation
Next-generation information technology						
Yidu Tech Inc.	Hong Kong	HK\$58.8 billion	38.5x	HK\$6.8 billion	6.7x	(78.0)%
Advanced hardware						
Tuya Inc.	Hong Kong	HK\$11.2 billion	4.7x	HK\$4.6 billion	1.9x	(57.0)%
New energy and environmental protection						
Ruifeng Renewable Energy	Hong Kong	HK\$0.4 billion	0.8x	HK\$0.10 billion	0.3x	(75.0)%

- 3.6. Taking the Company as an example, the table below shows the percentage increase in the Company's valuation from series A to series D (the latest round completed in April 2021). Although the increase in valuation slows down in Series D, (a) the Company maintains a steady year-to-year revenue growth rate and record a revenue of

approximately HK\$400 million for the financial year ended 2022 and (b) rapid business growth in terms of contractual amount.

	Year	Valuation (in US\$)	Percentage increase
Series A1	2003	4.6 million	/
Series A2	2008	22.6 million	391.30%
Series A3	2011	34.0 million	50.44%
Series B	2014	65.0 million	91.18%
Series B-Plus Tranche 1	2016	75.5 million	16.15%
Series B-Plus Tranche 2	2018	65.0 million	(13.91)%
Series C	2019	125.0 million	92.31%
Series D	2021	226.0 million	80.80%

- 3.7. The Company is of the view that, rather than relying on an unreasonably high expected market valuation, the assessment of the value of a technology company should focus on (i) the listing applicant's business model and growth potential, (ii) the proprietary intellectual properties developed and owned and (iii) the research and development expense spent. Taking the Company as an illustration, despite the fact that the Company's current valuation is far below US\$1 billion, it has consistently invested significant amount in R&D, developed and owned approximately 30 intellectual properties rights. Being the leading big-data decision solutions service provider in the sector, the Company has a well-established and recognized business model and achieves high growth in terms of revenue and contractual amount. Furthermore, the Company has gone through multiple rounds of private equity investments from reputable institutional investors, including but not limited to leading Asian private equity firm, global venture capital firm, leading Fortune 500 global trading and business investment company and last but not least, the Hong Kong government over the past 20 years where the Company's value has been solidly validated by these independent investors.
- 3.8. Third, a listing applicant with high valuation at the time of listing does not necessarily equivalent to a fair valuation. Indeed, setting a high market capitalization threshold may put pressure on some applicants to manipulate or overstate its value at the time of the listing so as to satisfy the minimum expected market capitalization requirement. Therefore, it may indeed put public investors at a higher risk of overstated valuation. Further, where an applicant's listing valuation is achieved through a series of manipulations or overstatement, there would be a substantial risk that its share price may plunge shortly after the listing, and the interests of the public investors and the Stock Exchange may be adversely affected.

- 3.9. To conclude, the Company believes it is not appropriate to set a market capitalization threshold primarily based on the valuation of typical “unicorn” companies before the economic downturn (i.e., before the second half of 2021). In fact, the Company proposes that the minimum expected market capitalization requirement for Commercial Companies shall be reduced to HK\$2 billion, considering the market capitalization tests for the major securities markets, namely NYSE/NYSE American, NASDAQ Global Market, NASDAQ Capital Market, Star Market (certain listing requirement), SGX and LSE are all below HK\$2 billion, and that the HK\$2 billion market capitalization together with HK\$250 million in revenue would represent 8 times price-to-sale ratio (P/S ratio), a valuation level that is considered to be comparable with its global competitors from the market and investor perspective.
- 3.10. Alternatively, the Stock Exchange may consider adopting a more flexible approach in dealing with the minimum expected market capitalization threshold on a case-by-case basis, for example, the Stock Exchange is suggested to make it clear in the new chapter 18C of the Listing Rules that the Stock Exchange has the sole discretion to consider granting a waiver to certain applicants when they fail to meet the market capitalisation threshold (in particular, due to the market condition at the time) while they can satisfy all other requirements under the new chapter 18C.
- 3.11. Not only will the suggested minimum market capitalization fit the current market situation, but the discretion at the Stock Exchange provides a high degree of flexibility to the Stock Exchange in reviewing listing applications case-by-case with merits from each potential listing application considered.

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?

- 3.12. The Company submits that it disagrees with the proposed definition of a sophisticated investor as set out in the Consultation Paper.
- 3.13. According to the Consultation Paper, the Stock Exchange would generally consider the following as examples of the types of a sophisticated investor for a Specialist Technology Company:
- (a) an asset management firm with asset under management (AUM) of, or a fund with a fund size of, at least HK\$15 billion;
 - (b) a company having a diverse investment portfolio size of at least HK\$15 billion;
 - (c) an investor of any of the types above with an AUM, fund size or investment portfolio size (as applicable) of at least HK\$5 billion where that value is derived primarily from Specialist Technology investments; and

- (d) a key participant in the relevant upstream or downstream industry with substantial market share and size, as supported by appropriate independent market or operational data.

3.14. Although the Stock Exchange will assess whether an investor is a “sophisticated investor” for a Specialist Technology Company on a case-by-case basis, the examples given by the Stock Exchange above is of vital importance as they provide clear and specific guidance and eliminate the needs for potential listing applicants to seek further confirmation from the Stock Exchange if their investors meet the quantitative standards set by the Stock Exchange. The proposed examples (a), (b) and (d) as quoted in paragraph 3.13 above are either unnecessarily stringent or overly narrow. The Company sets out below its reasons and alternative proposals for the Stock Exchange’s consideration.

(i) The proposed examples (a) and (b)

3.15. Regarding the proposed examples (a) and (b), the size threshold is the most stringent one, compared to the one for a Biotech Company and Special Purpose Acquisition Companies (SPAC) pursuant to Chapter 18A and 18B of the Listing Rules, respectively. Pursuant to Guidance Letter HKEX-GL92-18, a sophisticated investor for a Biotech Company would be an investor, investment fund or financial institution with minimum AUM of HK\$1 billion, which is only 1/15 of that for Specialist Technology Companies. Pursuant to Guidance Letter HKEX-GL113-22, a sophisticated investor for a De-SPAC Transaction (as defined under the Listing Rules) would be an asset management firm with AUM of at least HK\$8 billion, or a fund with a fund size of at least HK\$8 billion, only around half of that for Specialist Technology Companies.

3.16. While the Company acknowledges that a potential applicant should have received meaningful third-party investments from certain Pathfinder SIIs, each holding a substantial amount of shares or securities convertible into shares as at the date of listing application and throughout a certain period of time, there is no compelling reason for the criteria of sophisticated investors for Special Technology Companies to be significantly higher than those for Biotech Companies or SPACs. On the contrary, the market for Specialist Technology investments is analogous to that for SPACs searching for De-SPAC Targets (as defined under the Listing Rules). Since Chapter 18B of the Listing Rules became effective on January 1, 2022, four SPACs have been listed on the Stock Exchange and all of them intend to focus their efforts of identifying De-SPAC targets on new economy sectors¹ which highly overlap with or

¹ To illustrate, below are the primary focuses when searching for De-SPAC targets of the four SPACs that have been listed on the Stock Exchange as extracted from their respective listing document:

- (i) Aquila Acquisition Corporation (7836.HK): “we intend to concentrate our efforts on technology-enabled companies in new economy sectors (such as green energy, life sciences, advanced technology and manufacturing) in Asia, with a focus on China.”
- (ii) Vision Deal HK Acquisition Corp. (7827.HK): “we intend to primarily focus on high-quality companies in China that (i) are specialized in smart car technologies, or (ii) possess supply chain and cross-border e-commerce capabilities that position them to benefit from domestic consumption upgrading trends.”

even encompass the Specialist Technology Industries as defined in the Consultation Paper. It is therefore more appropriate to align the size thresholds for sophisticated investors of Specialist Technology Companies and De-SPAC Transactions.

- 3.17. In fact, there is no evidence that the quality of the due diligence checks and independent third-party validation to Specialist Technology Companies relates to the scale or investment track records of the investors. The proposed example (c) already sets a size threshold for investors with expertise in Specialist Technology investments, and it does not logically follow that three times of such threshold would make any investor a sophisticated investor in the Specialist Technology Industries.
- 3.18. From a broader perspective, an abnormally high threshold of the sophisticated investor may induce the potential issuers of Specialist Technology Companies to take investments from those with larger AUM rather than more suitable. As the Stock Exchange is well aware, the healthy development of a technology company quite depends on the dynamic between the founder/management team and their major investors. The size of AUM is only one of many indicators of the investment expertise of the sophisticated investors. Investors managing smaller AUM but with deep understanding and expertise of the industry could often be able to work with founder/management on growing the company. The high AUM threshold will unintentionally create an unfair competition between the large-size funds and the small-sized funds, as it provides the large-size funds an ungrounded upper hand in the negotiation with potential issuers and when the large-size funds competing deals with other investors.
- 3.19. As such, the Company submits that it would suggest to lower the size threshold in the proposed examples (a) and (b) to align with that for De-SPAC Transactions. The suggested proposals are as follows:

“(a) an asset management firm with asset under management (AUM) of, or a fund with a fund size of, at least HK\$8 billion;

(b) a company having a diverse investment portfolio size of at least HK\$8 billion.”

(ii) The proposed example (d)

- 3.20. Regarding the proposed example (d), the scope is narrow as it only takes into account a key participant in the relevant upstream or downstream industry. Pursuant to Guidance Letter HKEX-GL92-18, a sophisticated investor for a Biotech Company also includes a major pharmaceutical/healthcare company and a venture capital fund of a major pharmaceutical/healthcare company. Similarly, it is not uncommon for

(iii) HK Acquisition Corporation (7841.HK): “we intend to focus our search on companies in the financial services and technology sectors that have competitive edges on sustainability and corporate governance and that have operations or prospective operations in the Greater China area.”

(iv) Interra Acquisition Corporation (7801.HK): “we intend to focus on the innovative technology, consumer and new retail, advanced manufacturing, healthcare and climate action industries.”

major TMT companies to make investments in Specialist Technology Companies while they are not necessarily in the same industry, no matter upstream or downstream. The key point to be demonstrated should be that the investor should have sufficient industry knowledge and experience to assess the commercial viability of the products and/or services of the Specialist Technology Companies, rather than the investor being a key participant in the relevant upstream or downstream industry. Therefore, the Company believes “relevant industry” should suffice and suggest to revise the proposed example (d) as follows:

“(d) a key participant in the relevant industry with substantial market share and size, as supported by appropriate independent market or operational data.”

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?

- 3.21. The Company is of the view that the Stock Exchange places too much emphasis on SII but misses the focus on the real assessment of technology company.
- 3.22. Observed from the past listing reforms, the Stock Exchange has only applied the concept of meaningful investment with the requirement for shareholding percentage and timing of investment to Biotech Companies under Chapter 18A of the Listing Rules. The Company noted that, as of December 13, 2022, only approximately 10.64% of the listed issuers under Chapter 18A of the Listing Rules has a market capitalization that is higher than that as at the time of their respective listings.² Although the global economy has been volatile over the past few years, compared with listed issuers of other sectors that are affected by the same external economic environment, the post-listing performance of the Biotech Companies was more disappointing and appears not supportive for the intended effect from the concept of “meaningful investment” made by sophisticated investors with certain percentage of shareholding throughout certain period of time, which was supposed to guide the public market to recognize and ascertain the true value of the listed issuers.
- 3.23. By comparison, the Company noted that neither the NASDAQ Global Market or the STAR Market, both of which currently host a large number of Specialist Technology issuers, has adopted any rule requirements or benchmark indicators with respect to the pre-IPO investors’ shareholding percentage or length of investment. It can be seen from these leading stock markets that the focus should be more on the business model, the R&D capability, the quality of technology and the prospect of the applicants instead of placing too much emphasis on the investment by pre-IPO investors.

² Source of data: Wind, as of December 14, 2022.

3.24. Take one step back, even if an applicant should have received a meaningful third-party investment from at least two Pathfinder SII, the rigorous requirements of “5%” holdings and “throughout the pre-application 12-month period” are overly burdensome.

(i) *holding 5% shareholding or more of the issued share capital of the listing applicant*

3.25. SII holding a substantial stake may be an indicator of the sincerity of its investment. However, the Company believes that, to assess whether an investor’s investment is meaningful, the Stock Exchange should clearly provide in Chapter 18C that it shall evaluate on a case-by-case basis instead of relying on a definite percentage of shareholding.

3.26. The Company brings forward such advice as it understands that the financing history of technology companies differs significantly from each other. For illustration purposes, the follows are some examples:

(a) an applicant had wide appeal among investors and had gone through dozens of financing rounds. As a result, it has a large number of investors but all of them holding less than 5% equity in the applicant, which is not uncommon among unicorn technology companies;

(b) an applicant was established by wealthy founders with sufficient capital injection or the applicant has soon achieved positive cash flow generated from successful commercialization. As a result, significant private equity investment was not required for its development, and the applicant only went through a couple of rounds of financings and received limited amount in each round; and

(c) an applicant once received certain investment of substantial amount with a shareholding above 5% at the time of the investment, but had multiple rounds of investments afterwards. As a result, the relevant investor’s shareholding in the applicant was gradually diluted to below 5%, which is not uncommon among technology companies as it requires considerable time for research and development of innovative products.

3.27. In view of the above, the Stock Exchange is strongly suggested to clarify in Chapter 18C of the Listing Rules that the “5%” is for indication purpose but not the threshold, and it will accept a lower level of shareholding of the two Pathfinder SII after taking into account all the relevant circumstances (i.e., a large number of pre-IPO investors, monetary value of the investment from the relevant SII, and other factors in the financing history).

(ii) *has invested for a period of 12 months before listing application*

- 3.28. The Company submits that it disagrees with the requirement of “12-month period”. As an alternative, the Company suggests the Stock Exchange to clarify in Chapter 18C of the Listing Rules that the timing of the investment of Pathfinder SIIs is only a factor in considering “meaningful investment”, but avoid setting any specific period of time as a minimum investment period or even an indicative benchmark.
- 3.29. The Company is of the view that the “12-month period” requirement is arbitrary considering the following factors:
- (a) IPO investors normally look at the whole picture of the pre-IPO investments and the cornerstone investments in evaluating their investment willingness and risks instead of paying special attention to the timing of a particular investment. In fact, the Stock Exchange has already proposed in the Consultation Paper a minimum shareholding threshold of the aggregate investment from all SIIs at the time of listing, which the Company believes is sufficient to demonstrate independent market support. Therefore, the “12-month period” requirement does not provide additional assurance or meaningful information to public investors regarding quality or valuation of an applicant;
 - (b) HKEX-GL43-12 has provided a universal 28-clear-days requirement for all pre-IPO investments, which has already addressed the concerns associated with the exposure to different risks assumed by pre-IPO investors and IPO investors. It is not necessary to impose a more stringent requirement of “12-month period” for Pathfinder SIIs as an additional protection for the IPO investors in Specialist Technology Companies; and
 - (c) an investor’s relatively longer period of investment holding may to some extent indicate the steady development of an applicant’s business operations. However, there are plenty of other indicators that are more suitable to show the quality of an applicant’s business and potential of its growth, such as its business milestones, growth rate, intellectual properties associated with its core technologies and etc.
- 3.30. Furthermore, under the current proposal in the Consultation Paper, Pathfinder SIIs will be subject to a post-IPO lock-up of six months (for a Commercial Company) or 12 months (for a Pre-Commercial Company). Assuming the “12-month period” requirement under meaningful investment comes into effect, the total investment period for Pathfinder SIIs would be at least two to three years (including the vetting period by regulators). Such period is unnecessarily too long and posts significant risks to investors in Specialist Technology Companies. Without clear explanation of the basis, such tough requirement of “12-month period” are apparently not welcomed by the market.

3.31. In view of the above, the Stock Exchange is strongly suggested to remove the “12-month period” requirement and avoid setting any specific period of time as minimum investment period or indicative benchmark in determining “meaningful investment”.

4. **Disclaimer and Points of Contact**

- 4.1. This submission has been made by [REDACTED]
[REDACTED]
- 4.2. The Company and [REDACTED] do not consent to the disclosure of their names as a respondent to the public.
- 4.3. Should you have any queries in relation to the above submission, please do not hesitate to contact [REDACTED]
[REDACTED]

Yours faithfully,
