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Hong Kong Exchanges and
Clearing Limited (**HKEX**)
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Dear Sirs

Consultation Paper on Special Purpose Acquisition Companies (SPACs)

We welcome the opportunity to comment on the Consultation Paper on SPACs (**Consultation Paper**). Unless otherwise defined, terms used in this letter shall have the meaning ascribed to them in the Consultation Paper.

General

With continuing interest in SPAC listings in the region, we support HKEX's proposal to introduce a SPAC regime in Hong Kong. In particular, we support HKEX's initiative to introduce a bespoke SPAC framework which seeks to strike a balance between combating market misconduct / manipulation arising from shell company activities and maintaining Hong Kong as a competitive international financial centre.

We note that HKEX has proposed more stringent rules for the Hong Kong SPAC regime than those in the United States and Singapore: for example, higher entry criteria for SPAC listing applicants and De-SPAC Targets, setting minimum investment by founders / promoters and

mandating independent third-party investment to validate De-SPAC Targets. As far as investor suitability is concerned, the subscription and trading of SPAC securities prior to a De-SPAC Transaction would be limited to professional investors only. We support these measures which aim at preserving the integrity and healthiness of the Hong Kong stock market.

Our specific comments / questions

1. With respect to Question 1, we note that HKEX considers that Professional Investors are better placed to assess, monitor and mitigate the combination of risks associated with SPACs. On this note, is it HKEx's view that the risk profile of SPACs is higher than that for listed issuers under Chapter 18A of the Listing Rules (**Chapter 18A Companies**)? It would seem that the risk profile of SPACs may not necessarily be higher than that for Chapter 18A Companies and it may not necessarily be more difficult to assess the risk profile of SPACs than an assessment of the risk profile of Chapter 18A Companies. Whilst in principle we welcome the proposal in respect of investor suitability, we would be grateful if HKEx could provide some clarifications or considerations in respect of reconciling the differential treatment applicable to the respective regimes.

2. With respect to Question 12:

   a. Considering the average fundraising size of a Hong Kong PO, it would seem that a minimum fundraising size of HK$1 billion may be on the high side and may rule out some of the smaller promoters who are keen to list a SPAC in Hong Kong or may discourage the listing of smaller SPACs to test the market at the initial phase.

   b. When one combined the requirements on the minimum fundraising size, the minimum share issue price and the minimum board lot amount, the board lot of a SPAC may need to be set at a high number in order to meet the market's expectations of the value of each board lot of shares. This does not seem to accord with the nature of SPACs or other large size new economy companies. We would like to invite HKEx to reconsider the relevant threshold requirements.

3. With respect to Question 15, we would be grateful if HKEx could provide clarifications on the methodology(ies) to be used in determining the fair value for the pricing of Promoter Warrants.

4. With respect to Question 19, if a SPAC Promoter is an individual and such individual holds a Type 6 or Type 9 licence, we would be grateful if HKEx could clarify whether such individual would be qualified to act as the 'licensed' SPAC Promoter for the purpose set out in paragraph 217 of the Consultation Paper.

5. With respect to Question 20:

   a. In order to give certainty on matters that would require a shareholders' vote and trigger a redemption right, we would be grateful if HKEx could consider setting out an exhaustive list of matters that would be considered to be a material change in SPAC

Promoters. This is particularly so as item (e) in paragraph 218 of the Consultation Paper is drafted in very broad and general terms. Without itemising the specific circumstances that would fall within the ambit of item (e), there will be no certainty as to what circumstances associated with a firm that holds a Type 6/Type 9 licence (or personnel within such firm) or other SPAC Promoter(s) would trigger the shareholders' vote and redemption right.

b. It would seem to be out of the control of the SPAC or the SPAC Promoters as a whole if a SPAC Promoter were to commit a breach of laws, rules or regulations or were to be involved in any other matters bearing on the integrity and/or competence of such SPAC Promoter. If a consequence of such breach or involvement by a SPAC Promoter would trigger a redemption right, it would be a material consequence for the SPAC. We invite HKEx to consider fine-tuning the proposal so that the redemption right would not be triggered if such SPAC Promoter (who had committed a breach of laws, rules or regulations or who were involved in a matter bearing on its integrity and/or competence) does not control more than 50% of the Promoter Shares and it leaves the SPAC within one month of such breach or involvement on its part.

6. With respect to Question 21, please clarify whether the representation of the directors of a SPAC (which are nominated by the SPAC Promoters) would need to correspond with the percentage of shareholding of a SPAC Promoter in the SPAC as amongst all of the SPAC Promoters.

7. With respect to Question 22, in view of the corresponding requirements in the US and Singapore, we invite HKEx to adjust the proposal and require 90% of the IPO gross proceeds to be kept in escrow to give more flexibility in terms of support for the operating expenses of a SPAC and expenses for searching for a suitable De-SPAC Target because it could take up to 3 years (if extended) for a SPAC to engage in a De-SPAC Transaction.

8. With respect to Question 28, as it is contemplated that a SPAC Promoter could leave the SPAC before the consummation of a De-SPAC Transaction (see paragraph 218 item (a) of the Consultation Paper), we invite HKEx to permit the transfer of Promoter Shares and Promoter Warrants amongst SPAC Promoters, especially upon the departure of a SPAC Promoter.

9. With respect to Question 33, we support the proposal of **not** imposing any specific requirement on the amount of funds raised by a SPAC that the SPAC must use for the purposes of a De-SPAC Transaction. This is because, if such a requirement is imposed, the consideration payable to shareholders of a De-SPAC Target may have a higher cash portion. This may affect the ability of the Successor Company to meet the ownership continuity requirement if the shareholders of a De-SPAC Target are taking less shares as consideration in a De-SPAC Transaction.

10. With respect to Question 37, we tend to think that the requirements set forth in paragraph 296 of the Consultation Paper would be sufficient to validate the valuation for a De-SPAC Target. It seems to us that the additional requirement set out in paragraph 297 of the Consultation Paper would not add much additional weight to such validation.

11. With respect to Question 38, it would be an onerous due diligence exercise to verify that each and every PIPE investor fulfils the requirements set out in Rules 13.84(3) to (5) of the Listing Rules, especially if the coverage concerns the entire group of companies of each such PIPE investor. It will take a long time to carry out such exercise and it would not be practicable to obtain answers to all of the relevant questions with respect to the entire group of each such PIPE investor. This is particularly so given the timeframe for undertaking the PIPE investment. We also think that the criteria for assessing the independence of an IFA (in its capacity in advising the independent board committee and independent shareholders on the fairness and reasonableness of terms of a proposed transaction) is not all relevant for assessing the independence of a PIPE investor. Afterall, such PIPE investor is not giving any advice to the SPAC nor the independent shareholders of the SPAC. We think that the independence relationship should be better focused on satisfying the requirements set forth in Rules 13.84(1) to (2) of the Listing Rules or the independence requirements applicable to placees in an IPO. We invite HKEx to consider applying the independence criteria for a cornerstone investor or placee in an IPO, instead of the independence requirements for an IFA.

12. With respect to Question 47, it seems to us to be fairer to investors if they could exercise their right of redemption if they have abstained from voting (and not just in the case where they have voted against the requisite resolution). This is because some institutional investors (e.g. pension funds) have voting guidelines that they have to follow (and some of such guidelines apply globally), and if we tie the availability of the redemption right with an active negative vote on a requisite resolution, it may not be consistent with the existing voting guidelines of certain investors.

13. With respect to Question 48, please see our comments with respect to Question 20 above.

14. With respect to Question 60, we support the proposal that the Takeovers Executive should normally waive the application of Rule 26.1 of the Takeovers Code in relation to a De-SPAC Transaction, the completion of which would result in the owner of the De-SPAC Target obtaining 30% or more of the voting rights in a Successor Company, subject to the exceptions and conditions set out in paragraphs 411 to 415 of the Consultation Paper.

Should HKEX wish to discuss any of our comments please do not hesitate to contact our [redacted] on [redacted] or [redacted].

Yours faithfully

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