Submitted via Qualtrics

Charltons on behalf of: Alliance Capital Partners Limited, Altus Capital Limited, Anglo Chinese Corporate Finance, Limited, Asian Capital Limited, Frontpage Capital Limited, Huajin Corporate Finance (International) Limited, Lego Corporate Finance Limited, Oriental Patron Asia Limited and Yu Ming Investment Management Limited (together "the Group")
Company / Organisation
Corporate Finance Firm / Bank

Question 1
Do you agree with the proposed definitions of "Specialist Technology Company", "Specialist Technology Products" and "Specialist Technology"?

No

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

Please see the response to Question 2.

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with the list of Specialist Technology Industries and the respective acceptable sectors set out in paragraph 4 of the Draft Guidance Letter (Appendix V to the Consultation Paper)?

No

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

While the Group agrees that the Exchange needs to attract a more diverse range of companies, including technology companies, it disagrees with the Exchange's approach of differentiating each new category of listing applicant through the creation of highly detailed definitions of eligible categories (mineral companies, biotech companies, innovative companies, and now, specialist technology companies) each with separate listing criteria and continuing obligations. This risks creating confusion in the market and gives rise to uncertainty as to which requirements apply to a company engaged in two or more relevant categories of business. No other market adopts this approach. NASDAQ has successfully accommodated the listing of specialist technology companies without having to invent a new category of permitted listing applicant.

Ultimately, the Group supports any reforms that will diversify the market and allow more companies to list. Philosophically, however, it favours a disclosure-based market which allows the listing of any type of company subject to disclosure that allows investors to decide whether to invest based on the quality of the listing applicant as disclosed in its listing document. This

would allow the Exchange to move away from its current “picking winners” strategy which inevitably results in Hong Kong always remaining behind the curve, waiting to see what works in the US or Mainland markets, in the present case, the STAR Market. This is true of the proposed list of Specialist Technology Industries and the respective acceptable sectors included in the Draft Guidance Letter which, as an adaptation of the non-biotech STAR Industries, is already a list of yesterday’s technology.

The definition of “Specialist Technology Company” by reference to the list of Specialist Technology Industries and acceptable sectors in the Draft Guidance Letter is overly prescriptive. There are far too many potential new specialist technologies and sectors to confine them to a simple list. A far more general definition should be adopted.

The Group opposes the proposal that the Exchange should act as arbiter of what constitutes a Specialist Technology Industry or an acceptable sector, in determining which industries and sectors to add to the Guidance Letter. It questions whether the Exchange is generally in a position to assess which emerging technology industries qualify as Specialist Technology Industries and specifically, whether it is best placed to determine whether participants in the relevant sector satisfy the principles in paragraph 101 of the Consultation Paper, such as the requirement that they have “high growth potential”. The FCA, responding to recommendations that it should create tailored exemptions to the revenue earning track record requirements for biotech and other high-growth innovative companies, questioned whether they, “the FCA, are best placed to do this and whether we have enough specialised knowledge of existing and emerging technologies to appropriately consider the specificities of each sector” (FCA May 2022 Discussion Paper “Primary Markets Effectiveness Review: Feedback to the discussion of the purpose of the listing regime and further discussion” (DP22/2) at paragraph 3.35). Instead, the FCA is considering removing its financial eligibility requirements and moving to a disclosure-based regime (FCA May 2022 Discussion Paper DP22/2 at paragraph 3.24).

Where an emerging technology industry falls outside the list of Specialist Technology Industries and acceptable sectors, it is imperative that a listing applicant should be able to submit a pre-IPO enquiry to the Exchange and obtain assurance as to its prima facie eligibility to qualify as a Specialist Technology Company prior to submitting its listing application. Paragraph 6 of the Draft Guidance Letter and paragraph 102 of the Consultation Paper envisage that the Exchange will update the list of Specialist Technology Industries and acceptable sectors to reflect responses given to pre-IPO enquiries. Could the Exchange confirm that it will be able to update the guidance letter in time to give listing applicants the necessary assurance and if not, whether it will give pre-IPO enquirees an indication in principle to proceed pending the update of the Guidance Letter?

Given the Exchange’s willingness to list high-risk large cap issuers, the Group fails to understand the Exchange’s reluctance to list SMEs. It should be noted that, since the Consultation Paper makes specific reference to them, Chapter 18A Biotech companies have

had a particularly poor post-IPO performance, particularly those that raised the most money. Nevertheless, the Group looks forward to the publication of proposals for viable fund-raising options for SMEs which the Exchange's current listing regime fails to provide and to hasten its restructuring of the GEM market.

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"?

No

Please give reasons for your views.

The Group disagrees with criterion (a) – the requirement that a substantial portion of operating expenditure and senior management resources has been dedicated "to the research and development of, and the commercialisation and/or sales of, Specialist Technology Product(s) in the company's Specialist Technology business segment(s) for at least three financial years prior to listing".

The above requirement is too restrictive in its specification of "at least three financial years prior to listing". It would exclude from listing both super-efficient companies that are able to complete R&D within one or two years and companies that complete R&D before the three-year track record period and need to raise funds for commercialisation (for example to build a factory for production). The definition needs to provide greater flexibility to accommodate both types of company.

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?

No

Please give reasons for your views.

Whether or not an applicant has "high growth potential" is subjective and is thus not a suitable ground for allowing rejection of a listing applicant. It also raises the question of whether members of the Listing Division and Listing Committee are capable of assessing this for what may be entirely new technology industries. Demonstrating high growth potential is going to be particularly difficult for Pre-Commercial Companies. In any event, the Exchange always has the discretion to reject a listing applicant under Listing Rule 2.06.

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.

Allowing the listing or Pre-Commercial Companies is consistent with Chapter 18A. The Group is generally in favour of new listing regimes that are more inclusive.

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.

These companies potentially pose greater risks to investors. However, we have reservations regarding the high minimum market capitalisation requirement to be imposed on these companies as a quantitative measure, as elaborated on in our response to Question 9.

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?

Yes

Please give reasons for your views.

Allowing retail access to Pre-Commercial Companies is consistent with Chapter 18A. Excluding retail investment would risk limiting liquidity. We also generally favour new listing regimes that are more inclusive.

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.

The proposed minimum market capitalisation is far too high, restricting the regime to “unicorns” only. What is the rationale for a minimum market capitalisation of HK$8 billion for Commercial Companies with proposed revenue of HK$250 million in the most recent audited financial year when the minimum market capitalisation for Biotech Companies is only HK$1.5 billion? With reference to the “market capitalisation/revenue test” set out in Main Board Listing Rule 8.05(3), the proposed requirement for Commercial Companies appears to merely halve the revenue

requirement and double the market capital requirement. There appears to be a lack of meaningful concession from the existing Listing Rules as a preferential listing path for Specialist Technology Companies. We would suggest adopting the HK$1.5 billion market capitalisation requirement applicable to Biotech Companies.

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.

The figure is excessive. Please see the reasons given in response to Question 8. In addition, a minimum expected market cap of HK$15 billion would encourage the listing of extremely large but high risk companies increasing the potential for large losses to independent investors who come in at IPO valuations. Such a loss was observed on an artificial intelligence company whose share price fell approximately 46.7% on the trading day following the expiry of the lock-up period, and a further 18.9% on the subsequent trading day. Imposing longer lock-up periods would only defer the problem if the market valuation were inflated by the pre-IPO investors of various rounds. A market-driven price determination at IPO would be preferable to an arbitrarily determined and possibly inflated issue price aimed at satisfying the minimum market capitalisation upon 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?

No

Please give reasons for your views.

The amount of listing applicants' revenue will vary significantly depending on their particular business such that one-size-fits-all listing requirements such as this are not appropriate. As noted above, the Group's preference would be to adopt a disclosure-based listing regime which would remove the need to adopt arbitrary bright-line tests. If the Exchange nevertheless adopts a minimum revenue threshold, we suggest: (a) that it is lowered; and (b) it should apply not to the most recent audited financial year but to either: (i) the period starting on the date the listing applicant commenced commercialisation of the relevant Specialist Technology Product; or (ii) the entire track record period.

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.

We believe it is fair only to consider revenue arising from “activities in the ordinary and usual course of business” of the Specialist Technology segment concerned. Furthermore, we think that it will generally be in the interest of the applicant to carve out the Specialist Technology segment for listing.

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?

No

Please give reasons for your views.

This requirement cannot possibly apply to the entire universe of Commercial Companies. The ability to show year-on-year revenue growth will depend on the nature of a company’s revenues. A company supplying space exploration technologies, for example, will likely have lumpy revenues, but this should not preclude it from listing. Likewise, a company which increases its R&D expenditure to upgrade its product resulting in lower growth during one year of the track record period, should be allowed to list.

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?

No

Please give reasons for your views.

Please see the reasons given in the 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?

No

Please give reasons for your views.

The requirement is overly restrictive and may bar from listing companies in which investors would be keen to invest. Greater flexibility is required to permit the listing of both highly efficient companies that complete their R&D in less than three financial years and companies that complete their R&D before the three-year track record period and need to raise funds for commercialisation (for example to build a factory for production). We also question why a three-year track record is required when Chapter 18A allows a two-year track record for Biotech Companies.

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.

The problem with these bright line tests that seem to be written with a typical company in mind is that they will inevitably exclude companies that would otherwise be suitable for listing. The amount and timing of R&D investment will vary depending on the nature of the Specialist Technology such that listing applicants will need to be assessed on a case-by-case basis.

R&D expenditure for a growth company does not necessarily remain relatively stable as it may encounter different stages in a business cycle within a short period of time. Having an annual R&D threshold as a percentage of the total operating expenditure may not be indicative. But R&D expenditure is a good measure for evaluating growth prospects. We therefore consider that having an accumulated R&D expenditure threshold requirement before and/or during the track record period may present a better picture. As to the level of the accumulated R&D expenditure, we defer to the Exchange to conduct further study to define a meaningful threshold requirement.

Further, a Commercial Company may have completed its R&D substantially before its track record period. In this case, a large portion of the costs during the track record period would relate to commercialisation such as product testing, the (non-capitalised portion of) building factories, marketing and so on. Therefore, considering accumulated R&D expenditure before the track record period may be indicative.

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.

The problem with these bright line tests that seem to be written with a typical company in mind is that they will inevitably exclude companies that would otherwise be suitable for listing. The amount and timing of R&D investment will vary depending on the nature of the Specialist Technology such that listing applicants will need to be assessed on a case-by-case basis.

R&D expenditure for a growth company does not necessarily remain relatively stable as it may encounter different stages in a business cycle within a short period of time. Having an annual R&D threshold as a percentage of the total operating expenditure may not be indicative. But R&D expenditure is a good measure for evaluating growth prospects. We therefore consider that having an accumulated R&D expenditure threshold requirement before and/or during the track record period may present a better picture. As to the level of the accumulated R&D expenditure, we defer to the Exchange to conduct further study to define a meaningful threshold requirement.

Further, a Pre-Commercial Company should substantially conduct R&D activities during the track record period. However, when it tries to commercialise its products, the latest financial year may incur substantial costs for commercialisation which are not necessarily less than 50% of the total operating costs, such as product testing, the (non-capitalised portion of) building factories, financial reporting, compliance, marketing etc. Therefore, accumulated R&D expenditure during the track record period may be a better indicator.

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?

No

Please give reasons for your views.

If the Exchange adopts the proposed annualised threshold approach for R&D expenditure, then the definition of R&D expenditure should extend to the costs of commercialisation because the processes to commercialise a specialist technology product are also crucial to the success of a high growth company. However, if it is to adopt the accumulated threshold approach for R&D expenditure as we suggest in the response to Question 14 above, the proposed definition is acceptable.

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?

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No

Please give reasons for your views.

There are two issues here. First, the three-year track record requirement will exclude companies which grow exponentially within a shorter period. Pre-revenue Biotech Companies are required to have a two-year track record only (Listing Rule 18A.03(3)).

Second, the "substantially the same management" requirement lacks the flexibility to cater for a number of potential scenarios. While investors may look to the company's founders to assess the quality of the company, Specialist Technology Companies must be allowed to expand their management teams, possibly significantly, since this may be necessary for companies undergoing rapid expansion and/or bringing in venture capitalists. There may also be cases where the founders are removed. A possible alternative would be to require, as for Mineral Companies, a competent team to be in place. However, competence could not be defined in terms of years' of industry experience (as it is in Listing Rule 18.04 for Mineral Companies) given that Specialist Technology Companies will include companies in emerging industries.

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?

No

Please give reasons for your views.

The ownership of Specialist Technology Companies, particularly those in Mainland China, is very different to that of traditional Main Board issuers. They typically do not have a controlling shareholder and have very diverse ownership.

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.

This should be useful in providing retail investors with an indication of the quality of the listing applicant.

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.

The degree of comfort that investors will be able to draw from prior investment by Sophisticated Independent Investors will depend on the relevant investors being independent of the listing applicant.

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?

No

Please give reasons for your views.

As regards the definition of a "sophisticated investor" in paragraph 159, the Group agrees that qualification as a "sophisticated investor" should be assessed "on a case-by-case basis by reference to its relevant investment experience, knowledge and expertise in the relevant field". It disagrees however that this can be demonstrated solely by "its net assets, AUM, [or] size of its investment portfolio". An asset management firm may have AUM above HK$15 billion but no experience of investment in Specialist Technology Companies. The only relevant criterion should be the investor's track record of investment in Specialist Technology Companies.

The Group also disagrees with the list of illustrative examples provided at paragraph 160 of the Consultation Paper. Even allowing for the fact that these are illustrative examples only, the list suggests that only sizeable institutional and corporate investors will qualify as sophisticated investors. The list needs to be revised to reflect the reality of the Asian investment market by including family offices and private individuals. These types of investor are equally as capable of adding value as institutional and corporate investors. The comparable illustrative examples of sophisticated investors for pre-revenue Biotech Companies include any investor with AUM of HK$1 billion (paragraph 3.2(g)(i)(4) of HKEX Guidance Letter 92-18).

The HK$15 billion and HK$5 billion thresholds should also be removed for consistency with the sophisticated investor definition under Chapter 18A.

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.

The requirement is considerably more onerous than the comparable requirement for pre-revenue Biotech Companies – which is for meaningful investment from one sophisticated investor six months before listing. Further, if an applicant has third party investment from two, or even one, Sophisticated Independent Investor, the actual percentage shareholding is probably irrelevant. If the Exchange is to adopt a minimum shareholding threshold, it should require a combined 10% shareholding to be held by the two Sophisticated Independent Investors.

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?

Yes

Please give reasons for your views.

The proposed requirement for Sophisticated Independent Investors to hold specified percentages of Specialist Technology Companies' shares should be indicative of their quality.

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.

The applicant should have a genuine equity funding need as the primary reason for listing.

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.

This will be important information for investors.

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?

No

Please give reasons for your views.

These requirements are overly prescriptive and risk excluding otherwise suitable companies from listing. The means of demonstrating a credible path to achieving the Commercialisation Revenue Threshold needs to be drafted in far more general terms and not only by reference to binding contracts and non-binding framework agreements. Pre-Commercial companies targeting the retail market will not have binding contracts, non-binding frameworks or "highly reputable customers". The focus should be on qualitative rather than quantitative criteria.

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.

This should be part of the risk factor disclosures.

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.

This should be part of the risk factor disclosures.

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.

This is consistent with the requirement under Listing Rule 18A.03(4).

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?

No

Please give reasons for your views.

Our understanding is that this reflects market practice in the US. However, there is no evidence that it has any effect on the price discovery process and the Group therefore sees no justification for including this as a listing requirement.

Further, the definition of "Independent Institutional Investors" is far too narrow and fails to reflect the dynamism of investment capital in Asia. The Group strongly disagrees that there should be a minimum allocation only to institutional investors.

However, if the Exchange decides to adopt the proposal, family offices and private individuals must also be allowed to benefit. The definition of "Independent Institutional Investors" should then be revised to include corporate professional investors and individual professional investors as defined in the SFO PI Rules.

Question 29

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

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

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?

Please give reasons for your views.

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?

Please give reasons for your views.

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)?

No

Please give reasons for your views.

Could the Exchange please clarify its thinking behind this requirement given that there will not be an offer or allocation of shares on a listing by introduction?

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?

No

Please give reasons for your views.

The proposed initial retail allocation and clawback mechanism bears no relation to the quality of the price discovery process. Instead, the proposal will limit retail participation in offerings with significant demand. The Exchange did not adopt a different retail allocation and clawback mechanism for pre-revenue Biotech Companies. The Group therefore sees no reason for introducing such a mechanism for Specialist Technology Companies.

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?

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

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.

The Consultation Paper states that the figure of HK$600 million is derived from the Exchange's analysis of past IPOs of certain issuers with a market capitalisation of over HK$8 billion. This would suggest that there are market forces at play on these IPOs which means that there is no need to include a requirement in the Listing Rules.

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?

No

Please give reasons for your views.

If the company meets the Chapter 8 requirement for a minimum of 300 shareholders, there should be no liquidity or orderly market concerns.

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.

The proposed disclosures will provide relevant information to investors.

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.

The overriding disclosure requirement of Listing Rule 11.07 should ensure that adequate information is disclosed.

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.

Existing shareholders' participation at IPO should be indicative of their confidence in the applicant and is consistent with the provisions for Biotech companies.

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.

The proposal would provide the bases for fair allocation of shareholdings and the premise for granting the necessary waivers.

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?

Yes

Please give reasons for your views.

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.

The lock-up period for controlling shareholders of Pre-Commercial Companies should be 36 months. A 24-month lock-up period applies to the controlling shareholders of GEM issuers which at least have cash flow of HK$30 million for the two preceding financial years.

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.

These are the persons whose ongoing commitment to the issuer is most beneficial.

However, we would welcome the Exchange's reasoning for imposing lock-ups on key persons of Specialist Technology Companies but not on those of pre-revenue Biotech Companies.

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.

These will assist in aligning key persons' interests with those of the IPO investors.

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.

These will assist in aligning key persons' interests with those of the IPO investors.

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.

The six month lock-up period should extend to all Sophisticated Independent Investors who contribute to the minimum aggregate investment requirement described in paragraph 167(b) of the Consultation Paper, and not only to the Pathfinder SIIs.

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.

The lock-up period for Pathfinder SIIs of Pre-Commercial Companies should be 24 months.

Further, the lock-up period should extend to all Sophisticated Independent Investors who contribute to the minimum aggregate investment requirement described in paragraph 167(b) of the Consultation Paper, and not only to the Pathfinder SIIs.

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.

The proposals are consistent with the Listing Rules' provisions for controlling shareholders under Listing Rule 10.07(1) and we see no reason for treating existing shareholders of Specialist Technology Companies differently.

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.

This will allow expedient fund raising after listing for fast growing businesses.

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.

Investors should be able to rely on the lock-up period stated in the Listing Document.

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.

This will be relevant information for investors.

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?

No

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

As indicated in our response to Question 25, Pre-Commercial Companies targeting the retail market will not have binding contracts or non-binding framework agreements which they can describe in their listing documents, and they will not therefore be able to provide "updates on the contract value realised and/or realisable" as proposed at paragraph 262(b). As indicated previously, Pre-Commercial Companies' path to meeting the Commercialisation Revenue Threshold should be disclosed on a qualitative rather than quantitative basis.

Question 50

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

No

Please give reasons for your views.

Both Pre-Commercial and Commercial Companies should be subject to the same type of ongoing disclosure requirements that apply to GEM issuers in relation to the use of IPO proceeds and something along the lines of achievement of business objectives.

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.

This is consistent with the provision for GEM issuers and Biotech Companies listed under Chapter 18A of the Main Board Listing Rules.

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?

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Yes

Please give reasons for your views.

The regime will allow Pre-Commercial Companies to list based on their plans to bring particular Specialist Technology Product(s) to commercialisation. We consider it reasonable for the Exchange's consent to be required for any fundamental change to their business.

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.

The proposal is consistent with the requirement for Biotech Companies and WVR issuers.

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.

The additional continuing obligations should apply only to Pre-Commercial Companies. They are less relevant to, and should not be required for, Specialist Technology Companies that have met the Commercialisation Revenue Threshold or one of the Main Board Eligibility Tests.

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.

The submission of audited financial statements will provide assurance that the Commercialisation Revenue Threshold or one of the Main Board Eligibility Tests has been met.