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** In cooperation with
Trench, Rossi e Watanabe
Advogados

8 December 2022

PRIVATE AND CONFIDENTIAL

Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Response to Consultation Paper on Listing Regime for Specialist Technology Companies

1. Introduction

We are pleased to submit this letter in response to the Consultation Paper on Listing Regime for Specialist Technology Companies ("**Consultation Paper**") published in October 2022. Unless otherwise defined herein, capitalised terms used in this letter shall have the same meaning ascribed to them in the Consultation Paper.

2. Executive Summary

We welcome the introduction of a new listing regime for Specialist Technology Companies. We are of the view that the new listing regime will diversify the product offerings of the Hong Kong securities market and attract more innovative companies to list in the jurisdiction and further bolster Hong Kong's innovation and technology sector and its position in the global securities market. We are grateful for the opportunity to comment on the proposals.

However, having consulted a number of stakeholders in the market (including investment banks and corporates in the technology sector), we have the following comments or concerns on the proposals:

(a) The minimum thresholds for market capitalisation and revenue are prohibitively high.

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- (b) Prolonged lock-up period for Pathfinder SIIs will adversely affect the attractiveness of Specialist Technology Companies to sophisticated investors.
- (c) The minimum threshold for market capitalisation under Chapter 8A should be adjusted downward when applying to Specialist Technology Companies listing with a WVR structure.

In addition, we would ask the Exchange to provide clarification and guidance on (i) what constitutes a meaningful offer size and (ii) what qualifies as "exceptional circumstances under which a shorter trading record of at least two financial years" for Specialist Technology Companies.

3. Comments on the Proposals

3.1 Minimum expected market capitalisation

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

Question 9: Do you agree that a Pre-Commercial Company applicant must have a minimum expected market capitalisation of HK\$ 15 billion at listing?

We disagree with the proposals.

While we note the Exchange's wish to uphold market quality, the proposed market capitalisation thresholds of HK\$ 8 billion for a Commercial Company and HK\$ 15 billion for a Pre-Commercial Companies are prohibitively high. The proposed thresholds represent approximately twice (for a Commercial Company) and four times (for a Pre-Commercial Company) as much as the highest market capitalisation threshold of RMB 4 billion under the market capitalisation/business test of the STAR Market. The proposed thresholds represent approximately five to 27 times (for a Commercial Company) and nine to 50 times (for a Pre-Commercial Companies) as much as the market capitalisation thresholds under the non-profit-based and non-cashflow-based financial eligibility tests of LSE, NASDAQ, NYSE and SGX (as set out on page 22 of the Consultation Paper). Given that the proposed thresholds are significantly higher than those set by all other leading exchanges and in particular, most recently, the local stock market is weighed down by the pandemic and slowdown in economic growth, we expect that it would be hard to attract Specialist Technology Companies to list in Hong Kong.

Based on the above, we believe that the intimidatingly high thresholds would undermine the ability of the regime to attract quality Specialist Technology Companies and a better balance needs to be struck between upholding market quality and maintaining the competitiveness of the Exchange as a listing venue. In addition, market/company quality should not be principally measured by reference to market capitalisation, especially for Specialist Technology Companies that are seeking funding and have growth potential. There are different risk appetites and investment priorities among investors such that lower market capitalisation thresholds would likely promote a more diverse investors base and issuers base on the Exchange. The Exchange has already put in place many parameters including but not limited to research and development investment, additional disclosure, lock-up and investor requirements to ensure market order, investor protection

and company quality. We would therefore suggest setting more realistic market capitalisation thresholds of HK\$ 5 billion for a Commercial Company and HK\$ 10 billion for a Pre-Commercial Company.

Consequential changes to the minimum investment requirement as set out in Table 4 of the Consultation Paper and the minimum free float requirement under Rule 18C.09 should be adjusted downward in accordance with the revised market capitalisation thresholds.

3.2 Revenue threshold

Question 10: Do you agree that a Commercial Company must have a revenue of at least HK\$ 250 million for the most recent audited financial year?

We disagree with the proposal.

The proposed revenue threshold is unrealistically high and rigid as compared to those required by other leading exchanges. The market capitalisation/business test of the STAR Market has the highest market capitalisation requirement amongst its own alternative tests and also amongst the non-profit-based and non-cashflow-based financial eligibility tests of LSE, NASDAQ, NYSE and SGX, and yet, it does not require a listing applicant to have a track record of revenue or profit provided that the applicant's main businesses or products are approved by the relevant national authorities, possess large market potential and have achieved milestone progress. None of the non-profit-based and non-cashflow-based financial eligibility tests of LSE, NASDAQ, NYSE and SGX sets any revenue threshold. The proposed revenue threshold is incredibly high and inflexible, and is particularly so with the current backdrop of the global economic downturn and the pandemic. We believe the proposed revenue threshold combined with the proposed market capitalisation threshold will dissuade Specialist Technology Companies to list in Hong Kong.

In order to strike a better balance between upholding market quality and maintaining the competitiveness of the Exchange as a listing venue, for the same or similar reasons set forth above, we would suggest setting a more realistic revenue threshold of HK\$ 150 million for the most recent audited financial year.

3.3 Operational track record and management continuity

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?

We agree with the proposal. However, noting that the Exchange may accept a shorter trading record of at least two financial years in exceptional circumstances in line with Rule 8.05(3), we would ask the Exchange to provide guidance on what qualify as "exceptional circumstances".

3.4 Offer size

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?

We disagree with the proposal. It is unclear to us what would constitute "an offer of a meaningful size" or an offer size that "is not significant enough to facilitate post-listing liquidity, or may otherwise give rise to orderly market concerns". We would ask the Exchange to provide clarification and guidance on this requirement.

We are of the view that if an applicant is able to satisfy the listing requirements under Chapter 18C of the Listing Rules, the Exchange should not withhold its approval for listing due to its speculation of the applicant's liquidity, which is more appropriately determined by market demand and investors' appetite, whether at the time of listing or post-listing.

3.4 Post-IPO lock-up for Pathfinder SIIIs

Question 44: Do you agree with the proposed lock-up period on the securities of Pathfinder SIIIs of (a) six months (for a Commercial Company) and (b) 12 months (for a Pre-Commercial Company)?

We agree with the proposal (a) but disagree with the proposal (b).

We believe an absolute lock-up period of 12 months on the securities of Pathfinder SIIIs for a Pre-Commercial Company is too restrictive. We would suggest replacing the proposal with two lock-up periods of six months: (i) during the first six-month period, a Pathfinder SII cannot dispose of any securities of the Pre-Commercial Company; and (ii) during the second six-month period, a Pathfinder SII cannot dispose of any securities of the Pre-Commercial Company such that its percentage shareholding in the Pre-Commercial Company would drop below 5%.

3.5 Specialist Technology Companies with a WVR structure

A Specialist Technology Company applicant must meet a market capitalisation threshold of either HK\$ 40 billion or HK\$ 10 billion (if it has at least HK\$ 1 billion revenue in its last audited financial year) to list with a WVR structure pursuant to the existing requirement under Rule 8A.06. Given applicants will be either Pre-Commercial Companies with less than HK\$ 250 million in annual revenue or Commercial Companies that cannot meet the HK\$ 500 million annual revenue requirement under Rule 8.05(2) or Rule 8.05(3), it is likely the applicants will need to meet the HK\$ 40 billion market capitalisation threshold to list with a WVR structure.

An applicant seeking a listing on the STAR Market with a WVR structure, its market capitalisation and financial indicators are required to meet one of the following criteria: (a) the expected market capitalisation shall not be less than RMB 10 billion; or (b) the expected market capitalisation shall not be less than RMB 5 billion, and the operating income in the most recent financial year shall not be less than RMB 500 million. As such, the market capitalisation threshold represents approximately four times as much as the higher market capitalisation threshold of RMB 10 billion as required by the STAR Market.

Based on the above, we would suggest setting a lower market capitalisation threshold of HK\$ 15 billion for Specialist Technology Companies with a WVR structure.

We would like to see the new regime for Specialist Technology Companies to list in Hong Kong to be a major success and Hong Kong would develop into the major hub for technology and innovative companies in China and globally. Accordingly, we recommend that the various listing thresholds to be lowered, to an extent that is attractive to potential listing applicants and yet, able to maintain the integrity and the high standards of the Exchange.

Should the Exchange wish to discuss any of our comments, please do not hesitate to contact [REDACTED]

Yours faithfully,
[REDACTED]