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Date: 14th December 2022

Stock Exchange of Hong Kong Limited

8/F., Two Exchange Square

8 Connaught Place

Central

Hong Kong

Dear Sirs,

Response to Consultation Paper
Listing Regime of Specialist Technology Companies
by The Institute of Securities Dealers

This is the response ("**Response**") by the Institute of Securities Dealers ("**ISD**") to the Consultation Paper ("**Consultation Paper**") published by the Stock Exchange of Hong Kong (the "**Exchange**") in October 2022 in relation to the Listing Regime of Specialist Technology Companies.

Unless the context otherwise requires, terms and expressions defined in the Consultation Paper shall have the same meanings herein.

This Response is divided into two parts, namely our Statement of Main Concerns and the Completed Questionnaire.

Statement of Main Concerns

ISD generally welcomes the initiative to introduce a new listing regime for Specialist Technology Companies. However, ISD is concerned that some of proposed requirements and arrangements set out in the Consultation Paper may not be best placed for attracting such companies to Hong Kong for listing, and in fact may deter such companies and hence depriving the securities and corporate finance industries in Hong Kong of the opportunities promised by this growing but competitive area.

In making the Response, ISD has consulted a broad range of stakeholders and interested parties including holders of SFC Type 1, Type 6 and Type 9 licences, legal and other professional advisors, all having substantial experiences in handling listing and capital market transactions.

ISD's main concerns are as follows:

(a) Minimum market capitalization:

While we agree that there should be a minimum market capitalization for Specialist Technology Companies, the proposed HK\$8 billion for Commercial Companies and HK\$15 billion for Pre-commercial Companies are too high to make the Exchange an attractive proposition compared to other markets. The valuation multiples in the Hong Kong market have corrected significantly downwards in the recent years, and is also generally lower than competing exchanges in the US and Mainland China. There is no need for the Exchange to impose a market capitalisation requirement four times higher than these markets.

The implied price-to-sales of a minimum market capitalization of HK\$8 billion for Commercial Companies and HK\$15 billion for Pre-commercial Companies are too high and make it difficult for applicants to achieve. The implied P/S multiples were only achievable at the peak of the stock market. Based on our own analysis of the HKTECH Index, the price-to-sales of the index companies, only three companies have price-to-sales multiple of over 10 times. Unless the Exchange is only aiming at a few listings, the market capitalization requirements will make the proposed Chapter 18C provisions irrelevant very soon.

As set out in table 3 in paragraph 61 of the Consultation, the required market capitalisations of stock exchanges in the US, Mainland China, the UK and Singapore that provide financial eligibility tests that do not require applicants to demonstrate a track record of profit or cash flow are less than HK\$2 billion. We suggest a minimum market capitalization of HK\$2 billion in order to be compatible with these exchanges to attract a greater number of potential listing applicants, benefiting securities dealers, market practitioners and talent employment. Otherwise, the Exchange will treacherously contradict the HKSAR Chief Executive's 2022 policy address issued just in October 2022. In particular, in the section "Continue to Create Strong Impetus for Growth", the Chief Executive stated clearly his first priority to "Attract Enterprises, Investment and Talents to Enhance Competitiveness". Further, the Exchange's equating size with quality is nothing further from the truth – one only needs to look at a number of high-profile listings of large capitalization new listing of over HK\$10 billion market capitalization which fell by over 80% post-listing, which is a catastrophe compared with the stock market in general. In short, large market capitalization does not equate investment quality or investors' protection, not at all.

Valuation multiples fluctuate outside of the control of an applicant and it is inadvisable to adopt price-to-sales multiple in a bull market or at peak times, or those of the top transactions, as a benchmark to arrive at a required market capitalisation. A modest benchmark price-to-sales multiple is more appropriate as a listing condition.

We encourage the Exchange to think out of the box and not to compare the revenue and market capitalization requirement under 18C with those under 8.05(2) and 8.05(3).

Applicants under 18C do not enjoy preferential treatment as they are subject to other restrictive requirements under the proposed listing conditions such as third-party investment, minimum percentage held by Independent Institutional Investors, and free float requirement.

(b) R&D Investment as a percentage of total operating expenditure:

We agree in general that a Specialist Technology company should have high R&D investment, in particular Pre-Commercial Companies. However, because of the different nature of their products and the cost of R&D in different geography, the amount of R&D investment for some of the acceptable sectors as listed in Box 1 of paragraph 98 (e.g. advanced materials and new food and agriculture technologies) may not meet the 15% and 50% threshold respectively. Accordingly, we suggest the Exchange to build in flexibility for exemption from this requirement when appropriate. The Exchange can consider a qualitative requirement in the Rules (e.g. significant R&D investment comparable to similar businesses) and set out a guidance percentage in the guidelines.

(c) Minimum requirement of SII for Commercial Companies:

We do not view the mandatory requirement of SII investment as appropriate for Commercial Companies. Valuations in previous rounds of Pre-IPO may not be indicative of the support of the commercial viability or valuation of an applicant because redemption clauses and/or of valuation adjustment terms, and protective terms, popular in pre-IPO investments.

The due diligence conducted was only at the time of investment based on projections and technology/products under development and may not be indicative of the viability of the technology or the product at the time of the listing application.

The mandatory requirement for SII contradicts the risk of overstated valuation at IPO as stated in paragraph 74, "Pre-IPO investors are also incentivised to negotiate for a high valuation".

Companies have different funding requirements and considerations in raising financing. The mandatory requirement of SII twelve months prior to the date of the listing application may not be in these companies interests and deter the attraction of the Exchange as a listing venue. This requirement favours SII as they will have an advantage in bargaining for favourable terms with Specialist Technology Companies applying to list in Hong Kong.

Institutional investors will have access to pre-deal research and discussion with research analysts to understand the value of an applicant. In general they have analysts to build their own valuation model of the applicant to assess the fairness of the proposed

valuation. Further, as set out in figure 4 under paragraph 53, there were 738 and 451 specialist technology issuers in the US and Mainland China respectively which should provide ample valuation comparables for institutional investors to arrive at an informed opinion of the valuation of an applicant.

Although there is no Competent Authority to judge the commercial viability on the stage of development of the Specialist Technology Products, the fact that these products are already generating substantial revenue in the case of Commercial Companies should be a good indication of the commercialization of the products and allow the investors to gauge the viability of the products.

The requirement of minimum percentage of Independent Institutional Investors should provide sufficient safeguard on the valuation of a specialist technology company. Last but not least, an investor can choose not to invest in a specialist technology company if they are not convinced of the valuation of the applicant.

(d) Minimum requirement of SII for Pre-commercial Companies:

Unlike Commercial Companies, Pre-commercial Companies have generated less revenue and less commercially proven. They may still be in a phase of fundraising as compared to Commercial Companies. Accordingly, they represent a higher viability and sustainability risk to investors. Therefore, we agree that the requirement of SII before the filing of listing application as appropriate. However, it is unusual for pre-IPO investors to hold as much as 5% of a Specialist Technology company after various rounds of financing. Accordingly, we suggest a lower shareholding requirement and we recommend a 2% to 2.5% shareholding.

Completed Questionnaire

Question 1	Do you agree with the proposed definitions of “Specialist Technology Company”, “Specialist Technology Products” and “Specialist Technology”? Please give reasons for your views. If your answer is “No”, please provide alternative suggestions
<i>Answer:</i>	<i>Yes. The definitions are reasonably clear and conclusive, and there seems to be avenue to broaden them in the future.</i>
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)? Please give reasons for your views. If your answer is “No”, please provide alternative suggestions.
<i>Answer:</i>	<i>Yes. The coverage is reasonably comprehensive as compared to the non-biotech STAR industries.</i>
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”? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. The factors to be taken into account are reasonable and would allow listing candidates with multiple business segments to demonstrate their eligibility under the proposed listing regime. However, the Exchange should provide further and clearer guidance on the relevant thresholds under such factors to be taken into account.</i>
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? Please give reasons for your views
<i>Answer:</i>	<i>No. If a listing application from an applicant within an acceptable sector has been submitted when such acceptable sector is still valid, such listing applicant should remain eligible.</i>
Question 5	Do you agree that the Specialist Technology Regime should accommodate the listings of both Commercial Companies and Pre-Commercial Companies? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. Accommodating both the listings of both Commercial Companies and Pre-Commercial Companies would broaden the basis of listing candidates and serve their respective funding needs. This is also consistent with the general principles of The STAR Market.</i>
Question 6	If your answer to Question 5 is “Yes”, do you agree with the proposed approach to apply more stringent requirements to Pre-Commercial Companies? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This is preferable in terms of protection on public investors. This is also consistent with the general principles of The STAR Market.</i>
Question 7	If your answer to Question 5 is “Yes”, 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? Please give reasons for your views
<i>Answer:</i>	<i>Yes. This would allow wider choices for all investors, provided that Pre-Commercial Companies will be subject to more stringent requirements than Commercial Companies.</i>
Question 8	Do you agree that a Commercial Company applicant must have a minimum expected market capitalisation of HK\$8 billion at listing? Please give reasons for your views.
<i>Answer:</i>	<i>No. The proposed minimum expected market capitalization requirement of HK\$8 billion for Commercial Company is significantly higher than the highest market capitalisation requirements of RMB3 billion (with revenue requirement) of The STAR Market on commercialized companies. Accordingly, some listing candidates with good quality but lower expected market capitalisation will be deterred from pursuing a listing in Hong Kong.</i>

	<p><i>While we agree that there should be a minimum market capitalization for Specialist Technology Companies, the proposed HK\$8 billion for Commercial Companies and HK\$15 billion for Pre-commercial Companies are too high to make the Exchange an attractive proposition compared to other markets. The valuation multiples in the Hong Kong market have corrected significantly downwards in the recent years, and is also generally lower than competing exchanges in the US and Mainland China. There is no need for the Exchange to impose a market capitalisation requirement four times higher than these markets.</i></p> <p><i>The implied price-to-sales of a minimum market capitalization of HK\$8 billion for Commercial Companies and HK\$15 billion for Pre-commercial Companies are too high and make it difficult for applicants to achieve. The implied P/S multiples were only achievable at the peak of the stock market. [Based on our own analysis of the HKTECH Index, the price-to-sales of the index companies, only [three] companies have price-to-sales multiple of over 10 times.]</i></p> <p><i>As set out in table 3 in paragraph 61 of the Consultation, the required market capitalisations of stock exchanges in the US, Mainland China, the UK and Singapore that provide financial eligibility tests that do not require applicants to demonstrate a track record of profit or cash flow are less than HK\$2 billion. We suggest a minimum market capitalization of HK\$2 billion in order to be compatible with these exchanges to attract potential listing applicants.</i></p> <p><i>Valuation multiples fluctuate outside of the control of an applicant and it is inadvisable to adopt price-to-sales multiple in a bull market or at peak times, or those of the top transactions, as a benchmark to arrive at a required market capitalisation. A modest benchmark price-to-sales multiple is more appropriate as a listing condition.</i></p> <p><i>We encourage the Exchange to think out of the box and not to compare the revenue and market capitalization requirement under 18C with those under 8.05(2) and 8.05(3). Applicants under 18C do not enjoy preferential treatment as they are subject to other restrictive requirements under the proposed listing conditions such as third-party investment, minimum percentage held by Independent Institutional Investors, and free float requirement.</i></p>
Question 9	Do you agree that a Pre-Commercial Company applicant must have a minimum expected market capitalisation of HK\$15 billion at listing? Please give reasons for your views.
Answer:	<i>No. Please see our answer to Question 8 above.</i>
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? Please give reasons for your views.

<i>Answer:</i>	<i>Yes. The proposed revenue requirement of HK\$250 million for Commercial Company is within the range of revenue requirements from RMB200 million to RMB300 million of The STAR Market on commercialized companies.</i>
Question 11	Do you agree that only the revenue arising from the applicant's Specialist Technology business segment(s) (excluding any intersegmental 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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This is a fair and reasonable basis of determining the eligible revenue.</i>
Question 12	Do you agree that (a) 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; and (b) 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? Please give reasons for your views.
<i>Answer:</i>	<i>(a) No. Due to the relatively wide scope of "Specialist Technology" which covers a number of Industries, it may be difficult to appropriately impose prescribed revenue growth thresholds. (b) Yes. Such disclosures are essential for public investors in making their investment decisions.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. The engagement in R&D activities by Specialist Technology Companies should be a continuous process and this is consistent with the principle that R&D investment to be an essential component of a Specialist Technology Company.</i>
Question 14	Do you agree that, (a) 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; and (b) 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? Please give reasons for your views.
<i>Answer:</i>	<i>We agree in general that a Specialist Technology company should have high R&D investment, in particular Pre-Commercial Companies. However, because of the different nature of their products and the cost of R&D in different geography, the amount of R&D investment for some of the acceptable sectors as listed in Box 1 of paragraph 98 (e.g. advanced materials and new food and agriculture technologies) may not meet the 15% and 50% threshold respectively. Accordingly, we suggest the</i>

	<i>Exchange to build in flexibility for exemption from this requirement when appropriate. The Exchange can consider a qualitative requirement in the Rules (e.g. significant R&D investment comparable to similar businesses) and set out a guidance percentage in the guidelines.</i>
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? Please give reasons for your views.
Answer:	<i>No. The costs of initial recognition of any fixed assets relating to the company's R&D activities should not be excluded as some companies may only be able to incur further R&D expenditures on the ground of initial R&D assets being acquired. For the total operating expenditure, it is suggested that not all expenses of financial nature should be excluded as some companies may incur finance costs on external borrowings designated on R&D purposes.</i>
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? Please give reasons for your views.
Answer:	<i>Yes. This is generally in line with the current regulatory standards in Hong Kong.</i>
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? Please give reasons for your views.
Answer:	<i>Yes. This is generally in line with the current regulatory standards in Hong Kong.</i>
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)? Please give reasons for your views.
Answer:	<p><u>Commercial Companies:</u></p> <p><i>We do not view the mandatory requirement of SII investment as appropriate for Commercial Companies. Valuations in previous rounds of Pre-IPO may not be indicative of the support of the commercial viability or valuation of an applicant because redemption clauses and/or of valuation adjustment terms, and protective terms, popular in pre-IPO investments.</i></p> <p><i>The due diligence conducted was only at the time of investment based on projections and technology/products under development and may not be indicative of the viability of the technology or the product at the time of the listing application.</i></p> <p><i>The mandatory requirement for SII contradicts the risk of overstated valuation at IPO as stated in paragraph 74, "Pre-IPO investors are also incentivised to negotiate for a high valuation".</i></p>

	<p><i>Companies have different funding requirements and considerations in raising financing. The mandatory requirement of SII twelve months prior to the date of the listing application may not be in these companies interests and deter the attraction of the Exchange as a listing venue. This requirement favours SII as they will have an advantage in bargaining for favorable terms with Specialist Technology Companies applying to list in Hong Kong.</i></p> <p><i>Institutional investors will have access to pre-deal research and discussion with research analysts to understand the value of an applicant. In general they have analysts to build their own valuation model of the applicant to assess the fairness of the proposed valuation. Further, as set out in figure 4 under paragraph 53, there were 738 and 451 specialist technology issuers in the US and Mainland China respectively which should provide ample valuation comparables for institutional investors to arrive at an informed opinion of the valuation of an applicant.</i></p> <p><i>Although there is no Competent Authority to judge the commercial viability on the stage of development of the Specialist Technology Products, the fact that these products are already generating substantial revenue in the case of Commercial Companies should be a good indication of the commercialization of the products and allow the investors to gauge the viability of the products.</i></p> <p><i>The requirement of minimum percentage of Independent Institutional Investors should provide sufficient safeguard on the valuation of a specialist technology company. Last but not least, an investor can choose not to invest in a specialist technology company if they are not convinced of the valuation of the applicant.</i></p> <p><u><i>Pre-commercial Companies:</i></u></p> <p><i>Unlike Commercial Companies, Pre-commercial Companies have generated less revenue and less commercially proven. They may still be in a phase of fundraising as compared to Commercial Companies. Accordingly, they represent a higher viability and sustainability risk to investors. Therefore, we agree that the requirement of SII before the filing of listing application as appropriate. However, it is unusual for pre-IPO investors to hold as much as 5% of a Specialist Technology company after various rounds of financing. Accordingly, we suggest a lower shareholding requirement and we recommend a 2% to 2.5% shareholding.</i></p>
Question 19	If your answer to Question 18 is “Yes”, do you agree with the independence requirements for a Sophisticated Independent Investor as set out in paragraphs 155 to 157 of the Consultation Paper? Please give reasons for your views.
Answer:	<i>Yes in relation to Pre-Commercial Companies. Please see our answer to Question 18.</i>

Question 20	If your answer to Question 18 is “Yes”, 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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes in relation to Pre-Commercial Companies. Please see our answer to Question 18. Please see our answer to Question 18.</i>
Question 21	If your answer to Question 18 is “Yes”, 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? Please give reasons for your views.
<i>Answer:</i>	<i>No. The requirement of receiving third party investments at least 12 months before the date of the listing application will significantly affect the flexibility of companies’ listing timetable. Companies should be allowed to receive such third party investments on more recent dates from the date of listing application. Please see our answer to Question 18.</i>
Question 22	If your answer to Question 18 is “Yes”, 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? Please give reasons for your views.
<i>Answer:</i>	<i>No. There may be practical difficulties for companies to find such significant percentages of meaningful investments from all Sophisticated Independent Investors. And such percentages of meaningful investments of 20% to 25% for companies with expected market capitalisation of less than HK\$20 billion would also significantly dilute the shareholdings of existing shareholders. Please also see our answer to Question 18.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This is in line with the fund-raising principles of such listing regime.</i>
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? Please give reasons for your views
<i>Answer:</i>	<i>Yes. Such information is essential for the Exchange to assess the listing application and for investors to make informed investment decisions.</i>
Question 25	If your answer to Question 24 is “Yes”, 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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. These are typical examples of demonstrating a credible path.</i>
Question 26	Do you agree that a Pre-Commercial Company applicant must: (a) explain and disclose, in detail, the timeframe for, and impediments to, achieving the Commercialisation Revenue Threshold; and (b) 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? Please give reasons for your views
<i>Answer:</i>	<i>Yes. Such disclosures are essential for investors to make informed investment decisions.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This is generally in line with the current regulatory standards in Hong Kong.</i>
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? Please give reasons for your views
<i>Answer:</i>	<i>Yes. Independent Institutional Investors are generally more resourceful in investment due diligence and more experienced.</i>
Question 29	If your answer to Question 28 is “Yes”, 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 suggestion.
<i>Answer:</i>	<i>Yes. The definition is reasonably clear and is distinctive from corporate/individual professional investors.</i>

Question 30	If your answer to Question 28 is “Yes”, 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.
<i>Answer:</i>	<i>Yes. This would enable sufficient participation of Independent Institutional Investors.</i>
Question 31	If your answer to Question 28 is “Yes”, 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.
<i>Answer:</i>	<i>Yes. This would enable sufficient participation of Independent Institutional Investors.</i>
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)?
<i>Answer:</i>	<i>Yes. This could enable sufficient flexibility to a Specialist Technology Company seeking to list by introduction.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. Due to the different risk profiles of the securities of Specialist Technology Companies, suitable and new initial retail allocation and clawback mechanism for Specialist Technology Companies are considered appropriate.</i>
Question 34	If your answer to Question 33 is “Yes”, 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.
<i>Answer:</i>	<i>Yes. The maximum clawback is generally in line with that of The STAR Market.</i>

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”)? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. The required free float level is not excessive based on the proposed minimum market capitalisation.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This is generally in line with the current regulatory standards in Hong Kong.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. Such disclosures are essential for investors to make informed investment decisions.</i>
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? If so, please provide your suggestion
<i>Answer:</i>	<i>Yes. The Listing Document should also disclose how the “key persons” have made a material contribution to the past performance of a Specialist Technology Company, its current financial position and future prospects.</i>
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)? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This enables existing shareholders to demonstrate their faith and commitments in the company provided that the company complies with the relevant public float requirement.</i>
Question 40	If your answer to Question 39 is “Yes”, 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? Please give reasons for your views.

<i>Answer:</i>	<i>Yes. This would fairly and reasonably allow the participation of existing shareholders in the initial public offering.</i>
Question 41	Do you agree that the controlling shareholders of a Specialist Technology Company should be subject to a lock-up period of (a) 12 months (for a Commercial Company) and (b) 24 months (for a Pre-Commercial Company)? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. It is beneficial for public investors for controlling shareholders to demonstrate their commitments to the listing applicants' long-term development, especially for Pre-Commercial Companies.</i>
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? Please give reasons for your views
<i>Answer:</i>	<i>No. The definition of senior management referred to in paragraph 242(c) should be further clarified and it is suggested that only those senior management personnel who are significantly involved in the Specialist Technology Company's technical operations and/or the R&D should be considered as key persons.</i>
Question 43	If your answer to Question 42 is "Yes", do you agree with the proposed lockup periods on the securities of such key persons and their close associates of (a) 12 months (for a Commercial Company) and (b) 24 months (for a Pre Commercial Company)? Please give reasons for your views.
<i>Answer:</i>	<i>N/A</i>
Question 44	Do you agree with the proposed lock-up period on the securities of Pathfinders SIIs of (a) six months (for a Commercial Company) and (b) 12 months (for a Pre-Commercial Company)? Please give reasons for your views
<i>Answer:</i>	<i>Yes. This would help demonstrate the faith that these long-term investors in the companies.</i>
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? Please give reasons for your views
<i>Answer:</i>	<i>Yes. This is generally consistent with the current regulatory standards in Hong Kong.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This will provide more flexibility to Specialist Technology Companies in fund raising.</i>

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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This would validate information as stated in the Listing Document which the public investors relied upon when making their investing decisions.</i>
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 lockup 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? Please give reasons for your views
<i>Answer:</i>	<i>Yes. Such disclosure requirements are generally consistent with the current regulatory standards in Hong Kong.</i>
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? Please give reasons for your views. If your answer is “No”, please provide alternative suggestions and provide reasons for your suggestions.
<i>Answer:</i>	<i>Yes. Such disclosures will better enable investors to understand the R&D progress of Pre-Commercial Companies.</i>
Question 50	Do you agree that only Pre-Commercial Companies should be subject to the ongoing disclosure requirements referred to in Question 49? Please give reasons for your views
<i>Answer:</i>	<i>Yes. Such disclosures are mostly related to R&D progress.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>No. The remedial period should at least be as long as the usual 18-month period imposed on other issuers due to the complexity of specialist technology issues.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This is generally consistent with the current regulatory standards in Hong Kong.</i>

Question 53	Do you agree that Pre-Commercial Companies must be prominently identified through a “PC” marker at the end of their stock names? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. This will clearly identify Pre-Commercial Companies to public investors.</i>
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? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. The continuing obligations for Pre-Commercial Companies should no longer apply since such companies will be able demonstrate their maturity by meeting the requirements under paragraph 270 of the Consultation Paper.</i>
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)? Please give reasons for your views.
<i>Answer:</i>	<i>Yes. Such mechanism would provide a roadmap for Pre-Commercial Companies to demonstrate their corporate maturity.</i>

Should there be any questions or inquiries arising from the Response, please feel free to contact

[Redacted]

Yours faithfully,

[Redacted]

[Redacted]

For and on behalf of

The Institute of Securities Dealers