Response to Specialist Technology Consultation Paper

Definition of "Specialist Technology Company"

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with the list of Specialist Technology Industries and the respective acceptable sectors set out in paragraph 4 of the Draft Guidance Letter (Appendix V to the Consultation Paper)?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

We would recommend including Blockchain companies as one of the categories, as long as they are in compliant with all the relevant rules and regulations.

Categorisation of Commercial / Pre-Commercial Companies

Question 5

Do you agree that the Specialist Technology Regime should accommodate the listings of both Commercial Companies and Pre-Commercial Companies?

We would recommend taking out Pre-Commercial companies for 18C as in our view, if a company does not have revenue, then it is still too premature for public market. The targeted hard-tech and deep-tech industries are very different from the bio-tech industry that 18A targets. The bar should be higher, having paying customers is very important to prove these companies' product-market-fit and commercial potential.

Qualifications for Listing

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.

No. Capital intensive industries or earlier stage companies may spend more on R&D. As the definition of Specialist Technology covers many sectors, and companies that are targeted under the proposed regime may be at different stages of early growth and with different business model, a bright line test regarding R&D spend may not be appropriate as it may exclude certain companies worthy of listing (especially since the proposed 50% requirement is quite a high percentage).

We think it would be more appropriate to introduce some alternative test for the listing applicants in different sectors, for example, require applicants to demonstrate that they have been primarily engaged in R&D for the purposes of developing its Specialist Technology Products throughout its track record period, without mandating a specific expenditure ratio.

Third Party Investment Requirement

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?

The 5% requirement sounds arbitrary. Some companies may have many pre-IPO investors each owning smaller than the threshold, but they should not be penalized when compared with those companies with a few shareholders holding more than the 5% threshold.

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?

No. As the minimum market capitalization required to raise funds is a bit high, the minimum % of independent shareholders sounds difficult to achieve especially in the current market situation. To promote unicorns to list via 18C in Hong Kong, we would recommend that the percentages be reduced by at least 5% in each category.

Free Float and Public Float Requirements

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.

No. We agree that an IPO that does not have a meaningful offer size (i.e., too small) will raise concerns as to whether the book-building process is robust enough to aid proper price discovery or whether there would be a sufficient market to support a proper post-listing liquidity. However, further discretion from the Exchange on the offer size on top of the proposed listing standards, which are already strict, will create uncertainty on the listing process. Instead, it could be helpful to include an offer size parameter in the listing standards while loosening up a few other parameters to ensure the quality of both the issuer and the offering:

- To replace the "free float" parameter with the public offer size parameter: While the

concept of “free float” overlaps with the offer size to certain extent, “free float” is easier to be circumvented. For example, in many circumstances, underwriters can exclude shareholders from the contractual lock-up, which would result in increase of the “free float”. As a comparison, the offer size reflects public demand in an IPO to a large extent (and therefore a more meaningful indication of the post-listing liquidity) and proceeds to the issuer can truly help the company’s funding needs, which is often important to issuers at the pre-revenue stage.

- To loosen up the number and investment size required for Pathfinder SIIs: The proposed rules require at least two Sophisticated Independent Investors investing in the issuer for a total of 10% or more equity for at least a year before the listing application. This is a high bar to achieve. By adding an offer size parameter, quality of an issuer can also be tested during the book-building process instead of solely benchmarking to sophisticated investor’s pre-IPO investments, so the number of required Pathfinder SIIs and their total investment size should be reduced (for example, from two to one Pathfinder SII for a total investment of at least 5%).

In determining the threshold of the offer size, it would be helpful if the Exchange could give consideration to the size of the issuers, historical statistical data, market practice and other factors, and the final thresholds are staggered for companies in different size.

Post-IPO Lock-ups on Existing Shareholders

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.

No. We believe a distinction should be made between a controlling shareholder akin to a founder / key person and those that are genuine pre-IPO investors (such as financial investors). It is necessary for the former to be subject to a longer lock-up period as currently proposed in the consultation paper. However, genuine pre-IPO investors who are controlling shareholders should not be subject to restrictions over and above what currently applies to controlling shareholders of regular listed companies. For example, a financial investor may hold a significant size of equity in advanced technology companies as it invests in early stage of the company and provides support to founders to build up the company. Any longer-than-usual lock-up restrictions would discourage such investors’ participation in the companies’ growth. The current proposed 12 months (for commercial companies) and 24 months look excessive, and we would propose to match (a) controlling shareholders lock up period to be consistent with (c) Pathfinder SIIs but take note of our response to Question 44 as well.

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.

No. Pathfinder SIIs will more likely to be private equity or venture capital funds, which need to realize their investments within a fixed timetable. If Pathfinder SIIs are required to hold the listing applicant's shares for at least 12 months before the date of the listing application and they would have highly likely made the investment in relatively early stage. Such regulatory lock-up period might cause difficulty for a listing applicant to find shareholders willing to act as Pathfinder SIIs.