

16 December 2022

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

Re: Listing Regime for Specialist Technology Companies CP

Subject: Response to the Stock Exchange of Hong Kong Consultation Paper, *Listing Regime for Specialist Technology Companies*

Dear Sir/ Madam,

Deloitte Touche Tohmatsu welcomes the proposed regime outlined in the Listing Regime for Specialist Technology Companies Consultation Paper of the Stock Exchange of Hong Kong (the Exchange), believing it will expand the range of companies that can access Hong Kong's deep, liquid, international markets and offer investors more choices of innovative companies from around the world.

According to the Consultation Paper, as of 9 September 2022, more than 700 Specialist Technology Companies valued at a combined HKD85.4 trillion were listed in the United States and about 450 with a total value of HKD5.3 trillion were listed on the Chinese Mainland. Hong Kong trailed far behind with only about 100 such companies having gone public.

In 2018, the Exchange implemented its most significant reform in nearly 25 years by adding Chapter 8A, Chapter 18A, and Chapter 19C to the Main Board Listing Rules. This allowed innovative companies with weighted voting rights (WVR) structures and pre-revenue biotech companies to list on the Exchange. A new concessionary secondary listing route for these companies to list in Hong Kong was also created. As a result, Hong Kong became the world's 2nd largest and Asia's largest fundraising hub for biotech firms.

This latest proposal will enlarge the pool of innovative companies in Hong Kong's stock market. It aligns with Hong Kong's roadmap of being an international innovation and technology hub, which is part of China's 14th Five-Year Plan (2021-25). It also echoes the latest policy address of Mr. John KC Lee, Chief Executive of the Hong Kong Special Administrative Region, which called for boosting Hong Kong's innovation and technology sector and attracting talent with a package of new policies.

Many measures outlined in this proposal are essential and important to Hong Kong's position and future as an innovation and technology hub and listing venue of choice for innovative companies from across the world, and we put forward the following suggestions for the Exchange's consideration:

1. Include further guidance on the expenditure ratio test

We observe that it could be common for R&D experts or scientists to receive shares or an equity interest in the listing applicant as part of their remuneration package, or individuals with employee/ owner dual capacity who are involving in R&D activities were issued shares or convertible instruments of the listing applicant at a discounted amount. This might result in material amounts of share-based payment expenses recognised in the statement of profit or loss. This raises the question of whether such expenses would qualify as "R&D Investment" and/or be included in "operating expense" in the expenditure ratio test. There may also be other types of expenses incurred by listing applicants, which raise similar questions and the market is likely to request more guideline in this aspect. We suggest the Exchange consider revisiting the relevant requirements after receiving responses from other stakeholders.

2. Reconsider expected market capitalisation requirements

When going public, meeting the market capitalisation requirement is normally the first hurdle for technology companies. The Exchange requires a Commercial Company applicant to have an expected market capitalisation of at least HKD8 billion (USD1 billion) at the time of listing and revenue of at least HKD250 million in the most recent audited financial year at the time of its IPO, in contrast to a requirement of HKD15 billion expected market capitalisation for Pre-Commercial Company applicants. This requirement is relatively high compared with the highest valuation requirement of RMB4 billion (approximately USD550 million) of the STAR Market of Shanghai Stock Exchange.

The SSE STAR Market has more stringent requirements on whether a company is innovative. For example, it requires a technology company to spend 5% of its revenue on R&D, or a cumulative investment of more than RMB60 million over three years; allocate 10% of its total employees to R&D; have more than five patents; have a revenue growth rate of at least 20%; or have more than RMB300 million of revenue in the most recent year.

We suggest the Exchange consider revisiting the relevant requirements after receiving responses from other stakeholders on this Consultation Paper to attract a wider spectrum of technology companies and enhance Hong Kong's competitiveness as an international fundraising hub.

3. Consider other opinions regarding corporate governance

Following increasing public attention on environmental, social and governance (ESG), investors might have more concerns over the corporate governance of these new applicants. The Consultation Paper suggests there be disclosure requirements about the size, experience, qualifications, and areas of specialisation of the R&D team. The Exchange might consider extending the qualification or experience requirements to independent non-executive directors or non-executive directors as well, especially for potential Specialist Technology Company applicants.

According to Appendix 14 of the Corporate Governance Code Part 2 C.1.7, independent non-executive directors and other non-executive directors should make a positive contribution to the development of the issuer's strategy and policies through independent, constructive, and informed comments. For a listing applicant that is a Specialist Technology Company, the Exchange could encourage or require it to establish committees, for example advisory committees or strategic development committees, to be comprised of independent non-executive directors and non-executive directors and other advisors with relevant knowledge, as appropriate.

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We thank the Exchange for giving market participants such a valuable opportunity to express their views on this potential regime. We also look forward to seeing the new regime come into effect soon.

Yours faithfully,

