



天元律師事務所 (有限法律責任合夥)
TIAN YUAN LAW FIRM LLP

BY EMAIL (response@hkex.com.hk)

Corporate and Investor Communications Department
Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

December 17, 2022

Dear Sirs/ Madams,

Subject : Response to Consultation Paper on a Listing Regime for Specialist Technology Companies

Respondent : Tian Yuan Law Firm LLP for and on behalf of GF Capital (Hong Kong) Limited (廣發融資(香港)有限公司)

1. INTRODUCTION

- 1.1. Reference is made to the consultation paper published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on October 19, 2022 (the “**Consultation Paper**”) in relation to a new listing regime for Specialist Technology Companies. This written response is made by Tian Yuan Law Firm LLP for and on behalf of GF Capital (Hong Kong) Limited (the “**Respondent**”).
- 1.2. According to the Consultation Paper, the Stock Exchange noticed that Specialist Technology Companies currently face difficulties listing in Hong Kong because they often cannot meet the profit, revenue or cash flow requirements of the Main Board financial eligibility tests under the Rule 8.05 of the Listing Rules. As such, the Stock Exchange proposes to amend the Listing Rules to enable the listing of Specialist Technology Companies on the Main Board of the Stock Exchange.

合夥人：李竟弘、紀曉東、王何維、吳軼
Partners: LI King Wang, JI Xiaodong, WANG Hewei, WU Yi

註冊外地律師：王立華、吳冠雄、任燕玲、黃偉、劉艷、鄭屹磊、劉寧
Registered Foreign Lawyers: WANG Lihua, WU Guanxiong, REN Yanling, HUANG Wei, LIU Yan, ZHENG Yilei, LIU Ning

Suites 3304-3309, 33/F., Jardine House, One Connaught Place, Central, Hong Kong
香港中環康樂廣場1號怡和大廈33樓3304-3309室
Tel 電話 +852 3500 8628/3500 8638 / Fax 傳真 +852 3579 1969 / E-Mail 電郵 hkoffice@tylaw.com.hk

www.tylaw.com.cn

- 1.3. The Respondent appreciates the time and efforts put in by the Stock Exchange in preparing the Consultation Paper and welcomes the Stock Exchange’s proposals for creating a new listing regime for technology companies to go public in Hong Kong. However, having made due and careful consideration and having consulted fellow peers in the market and several potential listing applicants under the new listing regime, in order to attain intended objective of the new listing regime, the Respondent is not supportive either partially or entirely of certain proposals (the “**Proposals**”) as set out in the Consultation Paper. The Respondent sets out the reasons in support of their positions in the following paragraphs for the Stock Exchange’s consideration.
- 1.4. Unless otherwise defined herein, capitalized terms shall have the same meaning as those defined in the Consultation Paper.

2. **RESPONSES TO THE PROPOSALS**

The Respondent respectfully sets out the following responses to certain Proposals in the Consultation Paper and the reasonings.

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

- 2.1.1. It is noted that the minimum expected market capitalization of HK\$8 billion is set with reference to the level at which a company would be considered “unicorns” within the investment industry (i.e., those with a valuation of over US\$1 billion). However, as set out in Table 3 on the Consultation Paper, the non-profit based and non-cashflow based financial eligibility tests for listings on selected securities markets in the US, Mainland China, Singapore and the UK are much more lenient than those set out in the Proposals. Other requirements setting aside, among all the market capitalization requirements of the selected securities markets, only certain standards/ listing criteria of NASDAQ Global Select Market and STAR Market require for a market capitalization above HK\$2 billion, with none of them exceeding HK\$7 billion, while the market capitalization tests for the remaining securities markets (namely NYSE/ NYSE American, NASDAQ Global Market, NASDAQ Capital Market, SGX and LSE) are all below HK\$2 billion. The Stock Exchange’s proposed listing requirement of minimum market capitalisation of HK\$8 billion for Commercial Companies represents 4 to 27 times of the requirements of its global competitors. Current proposed listing requirement appears to be arbitrary, and may not be comparable and competitive to that of the Stock Exchange’s competitors, which could potentially defeat the purpose of promoting the listing of Specialist Technology Companies on the Main Board of the Stock Exchange.

- 2.1.2. Hong Kong is certainly not the first one who is considering to accommodate technology companies to go public. In fact, Hong Kong is facing intensive competitions because other major financial hubs have already introduced a listing regime for technology companies for years. Given the Stock Exchange recognizes that other leading stock exchanges have devised a more flexible eligibility criteria in respect of market capitalization threshold, the Respondent does not see any strong policy or commercial reasons why Hong Kong should set the highest market capitalization threshold for listing of technology companies compared to other financial hubs and how such highest criteria can make Hong Kong more competitive and eventually become a listing hub of choice for technology companies. As set out in the Consultation Paper, the proposed listing regime for the Specialist Technology Companies aims at enabling the Stock Exchange to catch up with other exchanges (including the US and Mainland China) on the new listing of Specialist Technology Companies. However, the proposed stringent listing requirement can hardly help attract Specialist Technology Companies applicants to listing on the Stock Exchange, nor to bridge the gap with other leading stock exchanges.
- 2.1.3. A listing applicant's valuation at the time of listing could be affected by many external factors which are not related to the applicant's fundamentals, for example, geopolitical, economic and market conditions. The global stock market, including the Hong Kong stock market, had been volatile since the second half of 2021 due to various geopolitical and economic factors, and it is uncertain that these macro factors will likely to improve in a game changing manner in the short term. The concerns for future growth as well as the changes in the investors' risk appetite are directly translated to stock valuation and can be clearly seen in both listed companies and that of IPOs. Although the market will eventually recover after its economic cycle, it is hard to predict or one cannot be overly optimistic about the level of valuation in the future. As such, the Respondent would suggest the Stock Exchange to reconsider the market capitalization requirement to a level that is practicable, achievable and comparable to its peers. An unnecessarily high market capitalization threshold will make Hong Kong uncompetitive compared to other financial hubs because it may block a significant number of potential applicants under the new listing regime in the following years (considering the global market conditions in the next few years). Hong Kong's ambition to become a listing hub for technology companies will be under threat if the new chapter 18C scheme is eventually designed to target very limited and selective applicants in the market. The following table sets forth the historical and current valuation of Hang Seng Index and Hang Seng Tech Index. It is noted that current Hang Seng Tech Index has fallen to the level of around 2018 to 2019, and Hang Seng Index has fallen to a time far earlier than 2018. With that in mind, it is hard to fathom how the market, especially the investors, would be willing to offer high valuation for "Unicorns".

Date	Hang Seng Index	Hang Seng Tech Index
December 9, 2022	19,901	4,370
November 30, 2022	18,597	3,798
September 30, 2022	17,223	3,450
June 30, 2022	21,860	4,870
March 31, 2022	21,997	4,623
December 30, 2021	23,112	5,671
September 30, 2021	24,576	6,102
June 30, 2021	28,828	8,155
March 31, 2021	28,378	8,184
December 30, 2020	27,147	8,295
September 30, 2020	23,459	7,088
June 30, 2020	24,427	6,477
March 31, 2020	23,603	4,416
December 30, 2019	28,319	4,697
September 30, 2019	26,092	3,948
June 28, 2019	28,543	3,825
March 29, 2019	29,051	4,087
December 31, 2018	25,846	3,460
October 4, 2011	16,170	N/A

- 2.1.4. It is noted that a total of 507 Specialist Technology Issuers listed in the US and Mainland China between January 2019 and March 2022 have been identified by the Stock Exchange for research and analysis purpose. As the identities of such issuers were not disclosed in the Consultation Paper, the Respondent has identified certain companies in the Specialist Technology Industries listed in the US, Mainland China, as well as Hong Kong for illustration purpose. Given the current stock market conditions, and uncertainties to the macroeconomic and geopolitical situations, the investors' risk appetite on Specialist Technology companies and the financial performance of a majority of such listed issuers have been adversely affected since early 2021 and their respective market capitalization has peaked out and a large number of companies have market capitalization fallen below HK\$8.0 billion. The following table sets forth the market capitalization of selected issuers in the Specialist Technology Industries at the time of their listing and as of December 9, 2022. It is noted that regardless the venue of listing, the vast majority issuers' valuation experienced sharp decline to a level that is no longer supported by and qualified for the proposed HK\$8 billion threshold. Based on such facts, should the proposed HK\$8 billion threshold remain unchanged, it is believed that many promising Specialist Technology companies will be excluded as potential issuers.

Company	Place of listing	Market Capitalization at the time of listing	P/S at the time of listing	Market Capitalization as of December 9, 2022	P/S as of 2022	% of fluctuation
Next-generation information technology						
Linklogis Inc (聯易融科技)	Hong Kong	HK\$43.7 billion	29.9x	HK\$9.8 billion	6.7x	-78%
Yidu Tech Inc (醫渡科技)	Hong Kong	HK\$58.8 billion	38.5x	HK\$6.8 billion	4.4x	-92%
Ming Yuan Cloud	Hong Kong	HK\$57.4 billion	21.2x	HK\$14.5 billion	5.4x	-75%

<i>Company</i>	<i>Place of listing</i>	<i>Market Capitalization at the time of listing</i>	<i>P/S at the time of listing</i>	<i>Market Capitalization as of December 9, 2022</i>	<i>P/S as of 2022</i>	<i>% of fluctuation</i>
(明源雲)						
Qeeka Home (齊屹科技)	Hong Kong	HK\$5.5 billion	4.1	HK\$0.5 billion	0.4	-91%
Cloopen Group (容聯雲)	US	HK\$59.5 billion	65.5x	HK\$1.0 billion	0.8x	-98%
Advanced hardware						
Tuya Inc (塗鴉智能)	Hong Kong	HK\$11.2 billion	4.7x	HK\$4.6 billion	1.9x	-57%
WIMI Hologram (微美全息)	US	HK\$2.5 billion	2.2x	HK\$0.7 billion	0.7x	-72%
YaGuang Tech (亞光科技)	Shenzhen	HK\$3.4 billion	1.9x	HK\$7.6 billion	4.3x	124%
Hangzhou Greenda (格林達)	Shanghai	HK\$3.5 billion	4.0x	HK\$6.3 billion	7.2x	80%
Kangqiang Electro (康強電子)	Shenzhen	HK\$2.1 billion	1.0x	HK\$5.4 billion	2.2x	157%
New energy and environmental protection						
Ruifeng Renewable Energy (瑞風新能源)	Hong Kong	HK\$0.4 billion	0.8x	HK\$0.1 billion	0.3x	-75%

- 2.1.5. Due to many external macroeconomic factors, many equity assets in major stock markets (including Hong Kong) are undergoing a valuation reset, the Respondent believes that it is not appropriate to set a market capitalization threshold primarily based on the valuation of typical “unicorn” companies back to either 2019, 2020 or 2021. Instead, it is proposed that the minimum expected market capitalization for commercial companies shall be reduced to HK\$2 billion, considering the market capitalization tests for the major securities markets, namely NYSE/ NYSE American, NASDAQ Global Market, NASDAQ Capital Market, SGX and LSE are all below HK\$2 billion, and that the HK\$2 billion market capitalization together with HK\$250 million in revenue would represent 8x price to sales ratio, a valuation level that is quite challenging from market and investor perspective, especially under the current market sentiment. Alternatively, the Stock Exchange may consider adopting a more flexible approach in dealing with the market capitalisation threshold on a case-by-case basis, for example, the Stock Exchange can make it clear in the new chapter 18C that it may consider granting a waiver to certain applicants when they fail to meet the market capitalisation threshold (in particular, due to the market condition at the time) while they can satisfy all other requirements under the new chapter 18C.
- 2.1.6. Furthermore, setting a high market capitalization threshold does not necessarily in itself ensuring the quality of listing applicant and better protect the public investors

while in the other way round, may put pressure on some applicants to manipulate or overstate its valuation at the time of the listing, especially at the time of before listing when valuation may not be too apparent. The Consultation Paper also admits the difficulties inherent in valuing Specialist Technology Companies. Consequently, it may put public investors at a higher risk of overstated valuation. Where an applicant's listing valuation is achieved through a series of manipulations or overstatement, there would be a substantial risk that its share price may plunge shortly after the listing, and the interests of the public investors and the reputation of the Stock Exchange may be adversely affected.

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

2.2.1. In addition to our submissions set out in paragraphs 2.1.1 to 2.1.6, the Respondent is of the view that the proposed market capitalization threshold for Pre-Commercial Company applicant is unnecessarily high.

2.2.2. As set out in the Table 3 in Consultation Paper, most comparable exchanges (including the US, the UK and Singapore) do not set a strict listing criterium on revenue. In other words, they do not distinguish between Commercial Companies and Pre-Commercial Companies, nor set an even higher threshold for Pre-Commercial Companies. On the other hand, STAR Market requests for a market capitalisation of RMB 4 billion (or HK\$4.8 billion equivalent) for pre-commercial listing applicants. The Stock Exchange's proposed listing requirement of minimum market capitalisation of HK\$15 billion for Pre-Commercial Companies represent 9 to 51 times of that of its global competitors (including the US, the UK and Singapore), while about 3 times of that of STAR Market. Again, the Respondent hesitates on the Stock Exchange's basis for setting such an unreasonably high market capitalisation requirement for Pre-Commercial Companies. Current proposed listing requirement appears to be arbitrary, and may not be comparable and competitive to that of the Stock Exchange's competitors. It is doubtful if it would ease the difficulties of Specialist Technology Companies to list on the Stock Exchange, where the Stock Exchange alleges it as the objective of the Consultation Paper.

2.2.3. For illustration purpose, the Respondent has also identified certain pre-commercial companies in the Specialist Technology Industries listed in the US and Mainland China. It is noted that the market capitalization of these selected pre-commercial companies were over HK\$15 billion at the respective time of their listing. However, the general macroeconomic environment as mentioned under paragraph 2.1 above has also negatively impacted the pre-commercial companies, resulting in falling of

market capitalization in the range of 50% to 99%, with the exception of Nikola. If attentions are drawn to China's STAR Market specifically, Tinavi Medical is the only company that met HK\$15 billion market capitalization requirement at listing but its current market capitalization has fallen below the threshold. It is noted that 7 out of 8 the issuers in the table below have market capitalization below HK\$15 billion as of December 9, 2022. The following table sets forth the market capitalization of selected pre-commercial issuers in the Specialist Technology Industries at the time of their listing and as of December 9, 2022:

<i>Company</i>	<i>Place of listing</i>	<i>Market Capitalization at the time of listing</i>	<i>Market Capitalization as of December 9, 2022</i>	<i>P/S as of 2022</i>	<i>% of fluctuation</i>
<i>Advanced hardware</i>					
Tusimple (圖森未來)	US	HK\$65.9 billion	HK\$32.9billion	67.4x	-50%
NIKOLA	US	HK\$1.9billion	HK\$8.7billion	13.8x	358%
Embark	US	HK\$40.7 billion	HK\$0.5 billion	-	-99%
Velodyne	US	HK\$31.6billion	HK\$1.9 billion	3.1x	-94%
Aeva	US	HK\$16.6 billion	HK\$2.6 billion	36.3x	84%
Ouster	US	HK\$15.0 billion	HK\$1.7 billion	5.2x	-87%
AEye	US	HK\$15.8billion	HK\$1.1 billion	-	-93%
Tinavi Medical (天智航)	Shanghai	HK\$39.6 billion	HK\$6.0 billion	38.1x	-85%

As shown above, valuation of various pre-commercial issuers in the Specialist Technology Industries at time of listing can at times be exceptionally high due to various external reasons, share price fluctuation and significant decline in valuation post listing could be damaging to investor confidence both in the Company and in the bourse in which the Company is listed.

2.2.4. While it is generally agreed that the Stock Exchange should impose more stringent requirements on early-stage Pre-Commercial Companies, the Respondent fails to see any reference or basis in the Consultation Paper to support the market capitalization threshold of HK\$15 billion for the pre-commercial companies. As such, it is proposed that the minimum expected market capitalization for pre-commercial companies shall be reduced to HK\$5 billion, with reference to STAR Market of RMB 4 billion. Alternatively, as stated in paragraph 2.1.5 above, the Stock Exchange may consider adopting a more flexible approach in dealing with the market capitalization threshold on a case-by-case basis.

2.3. ***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?

2.3.1. It is generally agreed that an applicant should have received a meaningful third-party investment from at least two Pathfinder SIIs, each holding certain amount of shares or securities convertible into shares as at the date of listing application and throughout a certain period of time. However, for the purpose of ascertaining “meaningful investment”, it is suggested that the Stock Exchange should make it clear in the new chapter 18C that (i) each of the following two criteria should be merely regarded as an indicative benchmark the Stock Exchange may take into account rather than a minimum investment requirement and (ii) the Stock Exchange has the discretion to accept a lower level of shareholding or shorter investment period when it considers fit:

(i) holding 5% shareholding or more of the issued share capital of the listing applicant

2.3.2. The Respondent acknowledges that the rationale of the proposal for requiring an applicant to demonstrate minimum investment from two Pathfinder SIIs as at the time of listing application is to help ensure that the applicant has been subject to extensive due diligence checks and to help provide independent third-party validation in the absence of a Competent Authority. However, there is no evidence (market research data or survey) showing that the shareholding percentage is relevant to the quality of Pathfinder SIIs’ due diligence checks or the independent third-party validation. Sophisticated Investors are generally asset management firms, investment funds or companies with extensive investment experience. They are subject to rigorous internal requirements for due diligence checks which do not vary substantially from case to case depending upon the expected percentage of shareholding. Extensive research and sufficient due diligence works are usually to be carried out by such investors on all their investment targets regardless of the percentage of their shareholding.

2.3.3. On the contrary, a compulsory specific minimum investment requirement for investors’ shareholding percentage or timing of investment may lead to potential applicants raising funds from investors solely for the purpose of satisfying such rule requirements, which may not conform to the applicants’ business planning and actual funding needs. As time goes on, it may evolve into a standard step for Specialist Technology Companies to seek a particular amount of investment at a particular stage during their preparation for listing, which in turn cannot truly serve as a valid indicator to demonstrate the applicants’ development status or commercialization potential and undermine the original rationale of such requirement.

- 2.3.4. Observed from the past listing reforms, the Stock Exchange has only applied the concept of meaningful investment with the requirement for shareholding percentage and timing of investment to Biotech Companies under Chapter 18A of the Listing Rules. It is noted that, as at December 9, 2022, less than 20% of the listed issuers under Chapter 18A of the Listing Rules has a market capitalization that is higher than that as at the time of their respective listings. Although the macroeconomy around the world has gone through volatility over the past few years, compared with listed issuers of other sectors that are affected by the same external economic environment, the post-listing performance of the Biotech Companies appears not supportive for the intended effect from the concept of “meaningful investment” that investors with certain percentage of shareholding throughout certain period of time could guide the public market to recognize the value of the listed issuers.
- 2.3.5. It is also noted that neither the NASDAQ Global Market nor the STAR Market, both of which currently host a large number of Specialist Technology issuers, has adopted any rule requirements or benchmark indicators with respect to the pre-IPO investors’ shareholding percentage or length of investment. It can be seen from these leading stock markets that the focus should be more on the business model and the prospect of the applicants instead of placing too much emphasis on the investment by pre-IPO investors. As the Stock Exchange is proposing the Chapter 18C Listing Regime in the hope that the situation where Specialist Technology Companies face difficulties to list in Hong Kong can be substantively changed and the gap between the stock market in Hong Kong and those in the U.S. and Mainland China can be narrowed, it is advisable that the Stock Exchange may consider to provide more flexibility on the assessment of “meaningful investment” for Specialist Technology Companies so as to promote the thrive of the Specialist Technology sector.
- 2.3.6. Instead, the Respondent considers, to assess whether an investor’s investment is substantial and meaningful, the Stock Exchange shall also take into account the relevant shareholding of the investor at the time of its initial investment rather than purely based on its shareholding at the time of the listing application case-by-case. This is because a technology company normally has had multiple rounds of private investments involving a large number of investors prior to its listing application, so the shareholding of each Sophisticated Independent Investor (even the leading Pathfinder SII) may be gradually diluted to a percentage below 5% at the time of listing application despite their substantial investment (in monetary value) at an early stage in this company. Therefore, the Respondent proposes that the Stock Exchange may make it clear that the Stock Exchange will accept a lower level of shareholding of the two Pathfinder SII after taking into account all the relevant circumstances (e.g. a large number of pre-IPO investors, monetary value of the

relevant leading Sophisticated Independent Investor, total number of rounds of investment, the timing of investment), provided THAT the investment from all Sophisticated Independent Investors could meet the proposed minimum investment requirement at the time of listing. Setting a minimum investment requirement without sufficient flexibility to consider case specific factors would be arbitrary and does not necessarily serve as a valid independent third-party validation for the market.

(ii) *has invested for a period of 12 months before listing application*

2.3.7. The Respondent does not agree with the proposed 12-month investment period before listing application. Alternatively, the Stock Exchange may make it clear in the new chapter 18C that the timing of the investment of Pathfinder SIIs is an important factor they would take into account when considering the “meaningful investment” but setting a specific investment period as a minimum investment period or even an indicative benchmark should be avoided.

2.3.8. While the Respondent understands the Stock Exchange’s rationale for requiring an applicant to demonstrate minimum investment from two Pathfinder SIIs is to help ensure that the applicant has been subject to extensive due diligence checks and to help provide independent third-party validation in the absence of a Competent Authority. However, there is no evidence (market research data or survey) to suggest that the length of the investment would be relevant to the quality of Pathfinder SIIs’ due diligence checks or the independent third-party validation. As Sophisticated Investors are generally asset management firms, funds or companies with extensive investment experience, they would be subject to rigorous internal requirements and sufficient resources to carry out extensive research and due diligence on their investment targets, regardless of the timing of their investments.

2.3.9. Further, the Stock Exchange has proposed a minimum shareholding threshold of the aggregate investment from all Sophisticated Independent Investors at the time of listing in the Consultation Paper, which is believed to be more convincing and sufficient to demonstrate independent market support. IPO investors normally look at the whole picture of the pre-IPO investments and the cornerstone investments in evaluating their investment willingness and risks instead of paying special attention to the timing of a particular investment. The “12-month period” requirement does not provide additional assurance or meaningful information to public investors regarding quality or valuation of the listing applicant, while in the other way round, such valuation could be irrelevant and potentially “outdated” in light of the long time lapse. Nonetheless, it is important to note that an investor’s confidence in a particular applicant is not simply shown by the timing of its investment, and there

are plenty of other indicators that can be more intuitive and compatible to the actual condition of a particular applicant to show the quality of its business and potential of its growth.

2.3.10. Last but not least, under the current proposal, Pathfinder SIIs will be subject to a post-IPO lock-up of six months (for a Commercial Company) and 12 months (for a Pre-Commercial Company). Assuming the “12-month period” requirement under meaningful investment comes into effect (which the Respondent disagrees), the total investment period for Pathfinder SIIs would be at least two to three years (including the vetting period by regulators). Such period is unnecessarily long, which will post unnecessary risks to investors and may negatively affect the investment landscape in the Specialist Technology sector.

2.3.11. To sum up, the Respondent does not see any policy reason or other basis to support this “12-month period” in the Consultation Paper. Current proposed listing requirement for Specialist Technology Company appears to be arbitrary, and more stringent than that of Biotech Company (i.e., one Sophisticated Investor invested for six months) and that of other leading stock exchanges.

2.4. ***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?***

2.4.1. It is submitted that the Respondent does not agree with the proposed definition of a sophisticated investor as set out in the Consultation Paper.

2.4.2. As set out in the Consultation Paper, the Stock Exchange would regard the following as a sophisticated investor for Specialist Technology Company:

- (a) an asset management firm with AUM of, or a fund with a fund size of, at least HK\$15 billion;
- (b) a company having a diverse investment portfolio size of at least HK\$15 billion;
- (c) an investor of any of the types above with an AUM, fund size or investment portfolio size (as applicable) of at least HK\$5 billion where that value is derived primarily from Specialist Technology investments; and
- (d) a key participant in the relevant upstream or downstream industry with substantial market share and size, as supported by appropriate independent market or operational data.

2.4.3. Although the Stock Exchange will assess whether an investor is a “sophisticated

investor” for a Specialist Technology Company on a case-by-case basis, the examples given by the Stock Exchange above is of vital importance as they provide clear and specific guidance and eliminate the needs for potential listing applicants to seek further confirmation from the Stock Exchange if their investors meet the quantitative standards set by the Stock Exchange.

- 2.4.4. However, there is no compelling reason for the criteria of sophisticated investor for Special Technology Company to be significantly higher than those for Biotech Company or SPAC. As set out in Guidance Letter HKEX-GL92-18, sophisticated investor for Biotech Company would be an investor, investment fund or financial institution with minimum AUM of HK\$1 billion, only 1/15 of that of Specialist Technology Company. As set out in Guidance Letter HKEX-GL113-22, sophisticated investor for SPAC would be an asset management firm with AUM of at least HK\$8 billion, or a fund with a fund size of at least HK\$8 billion, only around half of that of Specialist Technology Company.
- 2.4.5. While the Respondent acknowledges that a potential applicant should have received meaningful third-party investments from certain Pathfinder SIIs, each holding a substantial amount of shares or securities convertible into shares as at the date of listing application and throughout a certain period of time, there is no compelling reason for the criteria of sophisticated investors for Special Technology Companies to be significantly higher than those for Biotech Companies or SPACs. In fact, there is no evidence that the quality of the due diligence checks and independent third-party validation to Special Technology Companies relates to the scale or investment track records of the investors. In particular, the proposed example (c) already sets a size threshold for investors with expertise in Specialist Technology investments, it does not logically follow that three times of such threshold would make any investor as in example (a) or (b) a sophisticated investor in the Specialist Technology Industries.
- 2.4.6. From a broader perspective, an abnormally high size threshold encourages Specialist Technology Companies seeking for a listing in Hong Kong to take investments from larger investors rather than medium to small investors, regardless of industry knowledge, investment expertise and valuation of investment. Although independent third-party investments could provide external validation, especially in terms of valuation, the concentration and domination in the Specialist Technology Industries by large investors may provide less incentives for them to conduct extensive market research and rigorous due diligence and giving them more bargaining power over the applicants, therefore undermining the due diligence quality and disrupting the market pricing process. The potential consequences may diminish the credibility of third-party investments, which is the opposite of what is

intended by the Consultation Paper. Therefore, the Respondent would suggest to reduce the AUM and investment portfolio requirements to HK\$8 billion.

2.4.7. Nevertheless, for the proposed example (d) in relation to key participants in the relevant upstream or downstream industry with substantial market share and size, it is submitted that the scope is too narrow as it only takes into account a key participant in the relevant upstream or downstream industry. Pursuant to Guidance Letter HKEX-GL92-18, a sophisticated investor for a Biotech Company also includes a major pharmaceutical/healthcare company and a venture capital fund of a major pharmaceutical/healthcare company. Similarly, it is not uncommon for major TMT companies to make investments in Specialist Technology Companies while they are not necessarily in the same industry, no matter upstream or downstream. The key point to be demonstrated should be that the investor should have superior industry knowledge and experience to assess the commercial viability of the products and/or services of the Specialist Technology Companies, rather than the investor being a key participant in the relevant upstream or downstream industry. Therefore, it is believed that “relevant industry” should suffice and suggest to revise the proposed example (d) as “*a key participant in the relevant industry with substantial market share and size, as supported by appropriate independent market or operational data*”.

2.5. ***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?***

2.5.1. It is submitted that the Respondent does not agree with the proposed requirement of minimum 50% investment from Independent Institutional Investors.

2.5.2. Mandatory requirement for minimum allocation of 50% IPO offer shares to Independent Institutional Investors will definitely hinder retail investors’ opportunities to invest in Specialist Technology Company. Current Clawback Mechanism under PN 18 is triggered by the demand from retail investors. However, the mandatory minimum allocation of 50% offer shares to Institutional Investors would contravene the principle of “retail investors’ demand first” under PN 18.

2.5.3. Minimum allocation of 50% offer shares to Institutional Investors while maintaining 25% total shares of public float would also create difficulties for listing applicants. Both Institutional Investors and retail investors may be introduced to the Specialist Technology Company listing applicant only upon IPO offer period. This may create

extra burdensome for listing applicants and/ or underwriters to seek for investors.

2.5.4. Further, no similar requirement is imposed by comparable stock exchanges on new listing of Special Technologies Company. Again, imposing stringent and “novel” requirements may adversely affect the Stock Exchange’s competitiveness.

2.5.5. Instead, the Respondent would suggest the Stock Exchange to consider to reduce the threshold to minimum allocation of 25% to Institutional Investor so as to keep the Stock Exchange’s proposed idea of price discovery process through Institutional Investor while fulfilling public investors’ interests.

2.6. ***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”)?***


2.6.1. It is regret to inform that the Respondent does not agree with the proposed free float requirement of HK\$600 million upon listing.

2.6.2. The Stock Exchange’s proposal of minimum HK\$600 million free float is referenced to its proposal of minimum market capitalisation of HK\$8 billion. As the Respondent counter-proposes to reduce the market capitalisation to HK\$2 billion (see paragraph 2.1 above), the Respondent suggests to reduce the free float to HK\$150 million accordingly, given our proposal of lowered market capitalization requirement and current still much depressed valuation level and multiple.

3. **DISCLAIMER AND POINTS OF CONTACT**

3.1. This submission has been made by Tian Yuan Law Firm LLP for and on behalf of GF Capital (Hong Kong) Limited.

3.2. GF Capital (Hong Kong) Limited and Tian Yuan Law Firm LLP consent to the disclosure of their names as a respondent to the public.

3.3. Should you have any queries in relation to the above submission, please do not hesitate to contact 

Yours faithfully,

Tian Yuan Law Firm LLP