

BY HAND AND 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 18, 2022

Dear Sirs/ Madams,

Subject : Response to the Consultation Paper on the Listing Regime for Specialist Technology Companies issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

Respondent : [REDACTED]

1. Introduction

- 1.1. We refer to the consultation paper published by the Stock Exchange on October 19, 2022 (the “**Consultation Paper**”) in relation to a new listing regime for Specialist Technology Companies (the “**Chapter 18C Listing Regime**”). This written response is made by [REDACTED] a potential listing applicant under the Chapter 18C Listing Regime (the “**Company**”). Unless otherwise defined herein, capitalized terms shall have the same meaning as those defined in the Consultation Paper.
- 1.2. According to the Consultation Paper, Specialist Technology Companies currently encounter difficulties in satisfying the Main Board financial eligibility requirements under Rule 8.05 of the Listing Rules. Therefore, the Stock Exchange proposes to introduce Chapter 18C to the Listing Rules, aiming at enabling the listing of Specialist Technology Companies on the Main Board of the Stock Exchange under a separate regime.
- 1.3. While the Company welcomes the Stock Exchange’s proposals for implementing a new listing regime for technology companies to go public in Hong Kong, as a potential listing applicant under the Chapter 18C Listing Regime, the Company is not supportive of certain proposals (the “**Proposals**”) as set out in the Consultation Paper with the reasoning set out in this submission.

2. Background of the Company

- 2.1. ██████████ was founded in 2015 by ██████████, the former Partner Director at Microsoft. ██████████ possesses extensive experiences in conversational artificial intelligence (“AI”) and search technology in multiple languages. He was once in charge of the product engineering for Bing Search, Bing Commerce, Bing Mobile, AI Xiaobing, Bing Ads Platform and AI Cortana, a pioneer in new AI chatbot.
- 2.2. ██████████ is committed to developing AI technologies for human-machine interaction applications aiming at increasing productivity and reducing cost for enterprises. With over seven years of development and commercialization, ██████████ is known as China’s leading smart business intelligence solution provider in the area of natural language processing (“NLP”).
- 2.3. Leveraging its core AI technologies such as NLP, deep learning, knowledge engineering, text processing and affecting computing, the Company provides a suite of smart business intelligence products and solutions including (i) Bot Factory that creates chatbots for providing automated customer services, (ii) Salesmate for increasing sales performance and revenue, (iii) Emoti Coach for training, onboarding, and assisting employees for their professional work, and (iv) Gemini for building knowledge graph and managing enterprise-level knowledge. As of the date of this submission, the Company has over 500 large enterprise customers worldwide and across different sectors, such as finance, healthcare, manufacturing, consumer and the government.
- 2.4. The Company has achieved rapid growth in the past several years. According to the management account of the Company, the revenue of the Company increased significantly by 59.5% from approximately RMB103.6 million in 2020 to approximately RMB165.2 million in 2021. Meanwhile, the research and development efforts of the Company are evidenced by its enormous research and development expenses, which accounted for approximately 50.7% and 61.0% of its total operating expenses for the year of 2020 and 2021, respectively.
- 2.5. The Company is confident that it qualifies as a Specialist Technology Company under the Chapter 18C Listing Regime on the basis that it has been principally engaged in the research and development of AI applications (i.e., dialogue AI, knowledge engineering, NLP, machine learning, hyper workflow automation and other AI solutions) which fits item (a)(ii) of the Special Technology Industries and Acceptable Sectors as illustrated in paragraph 98 of the Consultation Paper.

- 2.6. Further, as testament to its business success, the Company has gone through multiple rounds of private equity investment from reputable independent investors, including but not limited to leading Asian private equity firm, global venture capital firm, leading technology company in robot industry and government managed funds.

3. Response to the Proposals

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

- 3.1. The Company submits that it disagrees with the proposal that a Commercial Company applicant must have a minimum expected market capitalization of HK\$8 billion at listing with the reasons and recommendations set forth below.
- 3.2. First, the proposed minimum expected market capitalization requirement is the most stringent one among peers. 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 as a “unicorn” within the specific Specialist Technology Industry (i.e., companies with a valuation of over US\$1 billion). However, as set out in Table 3 in the Consultation Paper, the non-profit based and non-cashflow based financial eligibility tests for listings on selected securities markets in the United States, Mainland China, Singapore and the United Kingdom are much more lenient than those set out in the Proposals. Among all the market capitalization requirements of the selected securities markets in the globe, save and except for certain listing criterion for the NASDAQ Global Market and the STAR Market, all of them are all below HK\$2 billion. For instance, a PRC domestic enterprise with substantial research & development investment (similar to the requirement under the Chapter 18C Listing Regime) that wishes to list on the STAR Market only requires for an expected market capitalization of approximately RMB1.5 billion. Therefore, the Stock Exchange’s proposed minimum expected market capitalization of HK\$8 billion for Commercial Companies represents approximately 4 to 27 times of the requirements of its global competitors.
- 3.3. An exceptionally stringent minimum expected market capitalization requirement will only push away potential listing applicants from the Stock Exchange to seek for listing opportunity on other securities markets with more lenient market capitalization requirement, in particular during economic downturns in the following years. Historically technology companies in Hong Kong and Mainland China considered not only the Stock Exchange, but also other reputable securities exchanges with more lenient listing criterion in the United States and Mainland China. In fact, the Company is also debating internally whether to go listing on the Stock

Exchange under the new Chapter 18C Listing Regime or choose other securities exchanges such as the STAR Market. As the Stock Exchange is facing more and more intense competition in chasing the technology companies that represent the future, the Stock Exchange may want to consider setting a more comparable and diversified, if not the most lenient, listing requirements for Specialist Technology Companies so as to stand out from its global competitors. An unreasonably high standard will only defeat the whole purpose of proposing the new regime.

- 3.4. Second, a high expected market capitalization requirement fails to take into account the current macroeconomic situation. The valuation of a listing applicant is subject to the influence of a series of external factors that are unrelated to the applicant's fundamentals, for example, geopolitical and economic conditions, market sentiment and confidence. As such, while the global stock market, including the Hong Kong stock market, has been volatile since the second half of 2021 due to various geopolitical and economic factors, the concerns and anxiety over the global economy are directly translated to stock valuation and can be commonly seen in both listed companies and initial public offerings. Therefore, the true value and potential of a company will be underestimated by the market during economic downturn and the market valuation is unable to reflect the true value and potential of a listing applicant.
- 3.5. The Company has identified certain listed companies in the Specialist Technology Industries for illustration purpose. Given the current stock market conditions, and uncertainties to the macroeconomic and geopolitical situations, the financial performance of a majority of such listed issuers have been adversely affected since early 2021 where their respective market capitalization has peaked out and a large number of companies have market capitalization fallen below HK\$8 billion. The following table sets forth the market capitalization of selected listed companies in the Specialist Technology Industries at the time of their listing and as of December 9, 2022. It is noted that the market capitalization of these selected listed issuers experienced a sharp decline to a level that is no longer supported by the proposed HK\$8 billion threshold. To conclude, 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 ratio as of December 9, 2022	Percentage of fluctuation
Next-generation information technology						
Yidu Tech Inc.	Hong Kong	HK\$58.8 billion	38.5x	HK\$6.8 billion	6.7x	-78.0%
Advanced hardware						

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 ratio as of December 9, 2022	Percentage of fluctuation
Tuya Inc.	Hong Kong	HK\$11.2 billion	4.7x	HK\$4.6 billion	1.9x	-57.0%
New energy and environmental protection						
Ruifeng Renewable Energy	Hong Kong	HK\$0.4 billion	0.8x	HK\$0.1 billion	0.3x	-75.0%

- 3.6. The Company is of the view that, rather than relying on an unreasonably high expected market valuation, the assessment of the value of a technology company should focus on (i) the listing applicant's business model and growth potential, (ii) the proprietary intellectual properties developed and owned and (iii) the research and development expense spent. Taking the Company as an illustration, despite that the Company's current valuation is below USD1 billion, the Company has a well-established and recognized business model with great growth potential, evidenced by its rapid growth of recognized revenue for the year of 2020 and 2021 with a year-to-year growth rate of approximately 59.5%. Moreover, the Company has constantly invested significant amount in R&D activities, with the R&D expenses accounting for approximately 50.7% and 61.0% of its total operating expenses for the year of 2020 and 2021, respectively, and has developed and owned 167 intellectual properties related to its core business. Furthermore, the Company has gone through multiple rounds of private equity investments from reputable institutional investors, including but not limited to leading Asian private equity firm, global venture capital firm, leading technology company in robot industry and government managed funds, where the Company's value has been solidly validated by these independent investors.
- 3.7. Third, a listing applicant with high valuation at the time of listing does not necessarily equivalent to a fair valuation. To the contrary, setting a high market capitalization threshold may compel some applicants to manipulate or overstate its value at the time of the listing so as to satisfy the minimum expected market capitalization requirement. It may indeed put public investors at a higher risk of overstated valuation. Further, 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 Stock Exchange may be adversely affected.
- 3.8. To conclude, the Company believes it is not appropriate to set a market capitalization threshold primarily based on the valuation of typical "unicorn" companies before the economic downturn (i.e., before the second half of 2021). The Company proposes that the minimum expected market capitalization requirement 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, STAR 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 8 times price-to-sale ratio (P/S ratio), a valuation level that is considered to be comparable with its global competitors from the market and investor perspective.

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?

- 3.9. The Company submits that it disagrees with the proposed definition of a sophisticated investor as set out in the Consultation Paper.
- 3.10. According to the Consultation Paper, the Stock Exchange would generally consider the following as a sophisticated investor for a Specialist Technology Company:
- (a) an asset management firm with asset under management (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.
- 3.11. 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. In particular, the Company believes that the proposed examples (a) and (b) as quoted in paragraph 3.10 above are either unnecessarily stringent or overly narrow and sets out below its reasons and alternative proposals for the Stock Exchange’s consideration.
- 3.12. The size threshold in the proposed examples (a) and (b) is the most stringent one compared to that for Biotech Company and Special Purpose Acquisition Companies (SPAC) pursuant to Chapters 18A and 18B of the Listing Rules, respectively. Pursuant to Guidance Letter HKEX-GL92-18, a

sophisticated investor for a Biotech Company would be an investor, investment fund or financial institution with minimum AUM of HK\$1 billion, which is only 1/15 of that for Specialist Technology Companies. Pursuant to Guidance Letter HKEX-GL113-22, a sophisticated investor for a De-SPAC Transaction (as defined under the Listing Rules) 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 for Specialist Technology Companies.

- 3.13. While the Company acknowledges that a potential listing applicant should have received meaningful third-party investments from certain Pathfinder SIIIs, 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. On the contrary, the market for Specialist Technology Companies investments is analogous to that for SPACs searching for De-SPAC Targets (as defined under the Listing Rules). Since Chapter 18B of the Listing Rules became effective on January 1, 2022, four SPACs have been listed on the Stock Exchange and all of them intend to focus their efforts of identifying De-SPAC targets on new economy sectors¹ which highly overlap with or even encompass the Specialist Technology Industries as defined in the Consultation Paper. It is therefore more appropriate to align the size thresholds for sophisticated investors of Specialist Technology Companies and De-SPAC Transactions.
- 3.14. No evidence shows 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. The proposed example (c) in paragraph 3.10 above already sets a size threshold for investors with expertise in Specialist Technology investments, and it does not logically follow that three times of such threshold would make any investor a sophisticated investor in the Specialist Technology Industries.

¹ To illustrate, below are the primary focuses when searching for De-SPAC targets of the four SPACs that have been listed on the Stock Exchange as extracted from their respective listing document:

- (i) Aquila Acquisition Corporation (7836.HK): “we intend to concentrate our efforts on technology-enabled companies in new economy sectors (such as green energy, life sciences, advanced technology and manufacturing) in Asia, with a focus on China.”
- (ii) Vision Deal HK Acquisition Corp. (7827.HK): “we intend to primarily focus on high-quality companies in China that (i) are specialized in smart car technologies, or (ii) possess supply chain and cross-border e-commerce capabilities that position them to benefit from domestic consumption upgrading trends.”
- (iii) HK Acquisition Corporation (7841.HK): “we intend to focus our search on companies in the financial services and technology sectors that have competitive edges on sustainability and corporate governance and that have operations or prospective operations in the Greater China area.”
- (iv) Interra Acquisition Corporation (7801.HK): “we intend to focus on the innovative technology, consumer and new retail, advanced manufacturing, healthcare and climate action industries.”

- 3.15. From a broader perspective, an abnormally high threshold for sophisticated investors may induce potential listing applicants of Specialist Technology Companies to take investments from those with larger AUM rather than more suitable. As the Stock Exchange is well aware, the healthy development of a technology company quite depends on the dynamic between the founder/management team and their major investors. The size of AUM is only one of many indicators of the investment expertise of sophisticated investors. Investors managing smaller AUM but with deep understanding and expertise of the industry could often be more capable of working with founder/management on growing the company. The high AUM threshold will unintentionally create an unfair competition between the large-size funds and the small-sized funds, as it provides the large-size funds an ungrounded upper hand in the negotiation with potential listing applicants when competing deals with other investors.
- 3.16. As such, the Company suggests the Stock Exchange to lower the size threshold in the proposed examples (a) and (b) to align with that for De-SPAC Transactions. The suggested proposals are as follows:

“(a) an asset management firm with asset under management (AUM) of, or a fund with a fund size of, at least HK\$8 billion;

(b) a company having a diverse investment portfolio size of at least HK\$8 billion.”

4. Disclaimer and Points of Contact

- 4.1. This submission has been made by [REDACTED] for and on behalf of the Company.
- 4.2. The Company and [REDACTED] do not consent to disclose our name as a respondent to the public.
- 4.3. Should you have any queries in relation to the above submission, please do not hesitate to contact [REDACTED]
[REDACTED]

Yours faithfully,
