T

18 December 2022

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

**By Email**
**(response@hkex.com.hk)**

Our ref
Your ref

**Strictly Private and Confidential**

Dear Sir/Madam,

**Re: Consultation Paper on a Listing Regime for Specialist Technology Companies**

1. **Introduction**

1.1 This is a submission by [redacted] in response to the consultation paper issued by The Stock Exchange of Hong Kong Limited (the "**Exchange**") regarding the proposal of a listing regime for Specialist Technology Companies (the "**Consultation**").

1.2 Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as given in the Consultation.

1.3 We are broadly supportive of the Specialist Technology Regime and believe that its eventual implementation would attract new economy companies to list on the Exchange and improve the competitiveness of Hong Kong as a listing venue. This letter sets out comments on the Specialist Technology Regime for your consideration.

2. **Defining Specialist Technologies, Specialist Technology Companies, Specialist Technology Industries and Specialist Technology Products**

2.1 We appreciate the difficulty in defining Specialist Technology Companies, Specialist Technology Industries and Specialist Technology Products because of the evolving nature of such technologies. We agree that having a guidance letter which the Exchange may update from time to time will serve to preserve the flexibility necessary for the Specialist Technology Regime. The Draft Rule Amendments set out several factors pursuant to which the Exchange may exercise its discretion to refuse the listing of applicants. We recommend the following:

(A) The Exchange should set out how *"high growth potential"* is determined, by setting out the numerical metrics (e.g., the applicant's year-over-year growth) and qualitative metrics (e.g., the outlook of the applicant's particular industry and the position of the applicant within such industry) that measure "*growth potential*".

(B) Case studies or illustrative examples should be provided to illustrate how an applicant's success may or may not be considered to be attributable to the application, to its core business, of new technologies; and particularly, case studies illustrating what is meant by *"new business models"* and *"differentiation from traditional market participants"*.

(C) Likewise, case studies or illustrative examples should be provided to illustrate under what circumstances R&D will be considered to contribute to an applicant's *"expected value"* (e.g., by reference to quantitative metrics of business projections). Moreover, under rule 18C.03(5) of the Draft Rule Amendments, minimum percentages of operating expenditure are already stipulated for both Pre-Commercial Companies and Commercial Companies, and which would already indicate the importance of R&D in the context of the applicant's business activities and expenses. We consider that the second limb of *"constitut[ing] a major activity and expense"* may be repetitive.

2.2 We believe that the provision of further guidance by the Exchange would help reduce and streamline pre-IPO enquiries that will otherwise be necessary under the Specialist Technology Regime.

## 3. Minimum Expected Market Capitalisation

3.1 The Specialist Technology Regime currently requires an initial market capitalisation of at least HK$8 billion and HK$15 billion for Commercial Companies and Pre-Commercial Companies, respectively. We are however concerned that the initial market capitalisation requirements are on the high side. This would limit the pool of prospective applicants. It would also impede the attractiveness of the Exchange as a prospective listing venue for such companies, one of the very objectives which the Specialist Technology Regime seeks to achieve.

3.2 In particular, for Commercial Companies the proposed thresholds of market capitalisation and revenue represented an implied historical price-to-sales (P/S) ratio of 32 times. The Exchange has stated that to be the valuation generally associated with a 'unicorns' company. While we appreciate the Exchange's rationale in proposing such thresholds, this may risk making the Specialist Technology Regime highly exclusive to a limited number of 'unicorns' for want of so-called 'unicorn' valuation, and preclusive to companies with high growth potential but shy of such presumptive valuation.

## 4. Qualifying R&D Investment and Enhanced Disclosure

4.1 In the proposed method of determining the amount of qualifying R&D investment as set out in paragraph 12 of the Draft Guidance Letter, initial recognition of any fixed assets relating to the company's R&D activities, such as capital expenditures for acquiring an R&D centre, would be excluded from R&D investment for the purpose of rule 18C.03(5)(b) of the Draft Rule Amendments.

4.2 Understandably, capital expenditures for acquiring fixed assets such as real estate should be excluded from R&D investment as they are only incidental to the R&D of Specialist Technology Product(s) and could independently be categorised under other heads of investment. However, acquisitions of other fixed assets, such as R&D equipment, which are

specific to and necessary for the R&D of Specialist Technology Product(s), should be counted towards the amount of R&D investment.

4.3 The Draft Guidance Letter also sets out certain recommended disclosures for R&D. Given the importance of R&D and relevant expertise in contributing to the success of Specialist Technology Companies, we recommend that the Exchange consider mandating disclosure for certain areas including, but not limited to:

(A) a breakdown of R&D investment expended in each category, such as staff remuneration, acquisition of raw materials and R&D equipment (see above) with accompanying notes specifying, including, but not limited to, the stage(s) of the Specialist Technology Product(s) relevant to the R&D investment;

(B) the size, experience, qualifications and areas of specialisation of the R&D team, as well as any limitation to the application of their expertise, due to, for example, the difference in hardware support between any former employer(s) and the current employer;

(C) the proportion of R&D performed in-house (i.e. within the listed issuer group), as opposed to R&D outsourced to external third parties. As the Exchange defines Specialist Technology Companies as companies *"primarily engaged"* in R&D whether directly or through its subsidiaries, and it is foreseen that R&D activities can be carried out under collaborative arrangements, we recommend that a mandatory disclosure be made as to the proportion of R&D done (both internally and externally), in order to avoid any potential inflation of R&D activities and expenses by applicants.

## 5. Free Float and Public Float

5.1 Under rule 18C.10 of the Draft Rule Amendments, the Exchange is empowered to not approve the listing of a Specialist Technology Company if the offer size is not significant enough to facilitate post-listing liquidity, or may otherwise give rise to orderly market concerns. However, *"meaningful size"* is not defined in the Draft Rule Amendments nor in the Draft Guidance Letter, and Specialist Technology Companies are already subject to minimum initial market capitalisation requirements under rule 18C.03(3) and (4) of the Draft Rule Amendments. We recommend that the Exchange provide further numerical metrics to illustrate what is regarded as a *"meaningful"* offer size by the Exchange.

5.2 Separately, the Exchange has introduced a free float requirement upon listing of an applicant under the Specialist Technology Regime. While we appreciate the concern that the Exchange has over potential market manipulation and price volatility, subject to further guidance as to what constitutes a "meaningful" offer size, we consider that the relevant risks may already be mitigated by having a minimum initial market capitalisation and a *"meaningful"* offer size. Further, as the timing for assessing the free float is only taken at the time of the listing, and the Exchange will be unable to monitor any subsequent restrictions imposed on disposal which will have bearing on the liquidity of the shares in the Specialist Technology Companies, we consider that the free float requirement may not be necessary and may not be effective in achieving the intended purpose.

## 6. Material Change

6.1 Under rule 18C.20 of the Draft Rule Amendment, without the prior consent of the Exchange, a Pre-Commercial Company must not effect any acquisition, disposal or other transaction or arrangement or a series of acquisitions, disposals or other transactions or arrangements, that would result in a fundamental change in the principal business activities of the relevant

issuer as described in the listing document issued at the time of its application for listing. Such material change requirement is also applicable to Biotech Companies listing under Chapter 18A of the Listing Rules. As the nature of Commercial Companies is not significantly different from Biotech Companies and Pre-Commercial Companies, we recommend that the Exchange extend the material change requirement to Commercial Companies.

Should you have any queries or wish to discuss further in relation to this submission, please contact the following persons of our office:


| Name | Direct Line | Facsimile | Email |
|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] |


Yours faithfully,

[redacted]