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December 16, 2022

Re: Consultation Paper on Listing Regime for Specialist Technology Companies

Ms. Bonnie Y Chan
Head of Listing
Hong Kong Exchanges and Clearing Limited

Dear Ms. Chan,

We act for Tencent Holdings Limited (“**Tencent**”, 00700.HK) and are submitting this letter on its behalf in response to the consultation paper (the “**Consultation Paper**”) published by The Stock Exchange of Hong Kong Limited (the “**Exchange**”) on 19 October 2022 seeking market feedback in creating a listing regime for Specialist Technology Companies on the Main Board of the Exchange in Hong Kong. Capitalized terms used but not otherwise defined in this letter have the respective meanings given to such terms in the Consultation Paper.

Tencent is a world-leading internet and technology company that develops innovative products and services to improve the quality of life of people around the world. Founded in 1998 with its headquarters in Shenzhen, China, Tencent's guiding principle is to use technology for good. Its communication and social services connect more than one billion people around the world, helping them to keep in touch with friends and family, access transportation, pay for daily necessities, and even be entertained.

As a HKEX-listed public company since 2004, Tencent fully welcomes and supports the initiatives taken by the Exchange as outlined in the Consultation Paper. However, having carefully reviewed the Consultation Paper, Tencent believes certain proposals in the Consultation Paper warrant some reassessment. Please refer to the enclosed Appendix for further details.

Finally, Tencent would like to reiterate its support for the proposed Specialist Technology Companies listing framework and believes this will be an important step to modernize and expand the Exchange's existing listing regime to attract innovative technology companies to participate in Hong Kong's capital market.

Please do not hesitate to contact [REDACTED]

[REDACTED]

[REDACTED] if you have any questions regarding the foregoing.

Very truly yours,

Davis Polk & Wardwell
Hong Kong Solicitors

Appendix

Responses to HKEX Consultation Paper on Listing Regime for Specialist Technology Companies

No	Question	Feedback
1	<p>Do you agree with the proposed definitions of “Specialist Technology Company”, “Specialist Technology Products” and “Specialist Technology”?</p> <p>Please give reasons for your views. If your answer is “No”, please provide alternative suggestions.</p>	Agree.
2	<p>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)?</p> <p>Please give reasons for your views. If your answer is “No”, please provide alternative suggestions.</p>	Agree on the basis that the list of Specialist Technology Industries and the respective acceptable sectors set out in paragraph 4 of the Draft Guidance Letter appear to be quite broad.
3	<p>Do you agree that the Exchange should take into account the factors set out in paragraph 107 of the Consultation Paper to determine whether a company is “primarily engaged” in the relevant business as referred to in the definition of “Specialist Technology Company”?</p> <p>Please give reasons for your views.</p>	Agree. This proposal echoes the intention and mission of this consultation.
4	<p>Do you agree that the Exchange should retain the discretion to reject an application for listing from an applicant within an acceptable sector if it displays attributes inconsistent with the principles referred to in paragraph 101 of the Consultation Paper?</p> <p>Please give reasons for your views.</p>	Agree. The Exchange should maintain the quality of the Hong Kong capital market, which is also in line with Listing Rules 2.03 and 2.04.

No	Question	Feedback
5	<p>Do you agree that the Specialist Technology Regime should accommodate the listings of both Commercial Companies and Pre-Commercial Companies?</p> <p>Please give reasons for your views.</p>	<p>Agree. This creates good opportunities for both applicants and investors.</p> <p>We believe it also helps the incubating companies with potentials to tap into equity financing and motivates those companies to choose HKEX as their fundraising venue post-COVID era.</p>
6	<p>If your answer to Question 5 is “Yes”, do you agree with the proposed approach to apply more stringent requirements to Pre-Commercial Companies?</p> <p>Please give reasons for your views.</p>	<p>Agree. This is similar to the spirit under Chapter 18A.</p>
7	<p>If your answer to Question 5 is “Yes”, do you agree with the proposal that all investors, including retail investors, should be allowed to subscribe for, and trade in, the securities of Pre-Commercial Companies? Please give reasons for your views.</p>	<p>Agree. As long as good disclosure is made, investors are well protected.</p>
8	<p>Do you agree that a Commercial Company applicant must have a minimum expected market capitalisation of HK\$8 billion at listing? Please give reasons for your views.</p>	<p>No. It is better to lower minimum expected market capitalisation of a Commercial Company applicant to be similar to Listing Rule 8.05.</p>
9	<p>Do you agree that a Pre-Commercial Company applicant must have a minimum expected market capitalisation of HK\$15 billion at listing? Please give reasons for your views</p>	<p>No. It is better to lower minimum expected market capitalisation of a Pre-Commercial Company applicant to be similar to Chapter 18A.</p>
10	<p>Do you agree that a Commercial Company must have revenue of at least HK\$250 million for the most recent audited financial year? Please give reasons for your views.</p>	<p>Agree, given it is already lower than Listing Rule 8.05.</p>
11	<p>Do you agree that only the revenue arising from the applicant’s Specialist Technology business segment(s) (excluding any</p>	<p>Agree. In addition, such Commercialisation Revenue Threshold is already lower than Listing Rule 8.05.</p>

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No	Question	Feedback
	intersegmental revenue from other business segments of the applicant), and not items of revenue and gains that arise incidentally, or from other businesses, should be recognised for the purpose of the Commercialisation Revenue Threshold? Please give reasons for your views	
12	Do you agree that (a) a Commercial Company must demonstrate year-on-year growth of revenue derived from the sales of Specialist Technology Product(s) throughout the track record period, with allowance for temporary declines in revenue due to economic, market or industry-wide conditions; and (b) the reasons for, and remedial steps taken (or to be taken) to address, any downward trend in a Commercial Company's annual revenue must be explained to the Exchange's satisfaction and disclosed in the Listing Document? Please give reasons for your views	Agree. Such disclosure helps to demonstrate the business continuity.
13	Do you agree that a Specialist Technology Company listing applicant must have been engaged in R&D of its Specialist Technology Product(s) for a minimum of three financial years prior to listing? Please give reasons for your views.	No. Time length of R&D does not seem to relate to a successful equity story.
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. Expenditure allocation should be a commercial decision. In addition, the proposed threshold is much more stringent than the thresholds required under Chapter 18A.
15	Do you agree with the proposed method for determining the amount of qualifying R&D investment and the total operating expenditure as	Agree. The scope appears quite broad.

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No	Question	Feedback
	set out in paragraph 141 of the Consultation Paper? Please give reasons for your views.	
16	Do you agree that a Specialist Technology Company listing applicant must have been in operation in its current line of business for at least three financial years prior to listing under substantially the same management? Please give reasons for your views.	Agree. Management continuity is key to commercial success.
17	Do you agree that there must be ownership continuity and control for a Specialist Technology Company listing applicant in the 12 months prior to the date of the listing application? Please give reasons for your views.	Agree. Ownership continuity is key to commercial success.
18	Do you agree that an applicant applying to list under the proposed regime must have received meaningful investment from Sophisticated Independent Investors (SIIs)? Please give reasons for your views.	Agree. This is not a new concept. Similar concept exists under Chapter 18A, Chapter 18B and Chapter 19C.
19	If your answer to Question 18 is “Yes”, do you agree with the independence requirements for a Sophisticated Independent Investor as set out in paragraphs 155 to 157 of the Consultation Paper? Please give reasons for your views	Agree. The independence requirements for a Sophisticated Independent Investor as currently proposed is already more relaxed than its usual interpretation.
20	If your answer to Question 18 is “Yes”, 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? Please give reasons for your views.	No. The thresholds seem too high, especially when it is compared to the definition of “professional corporate investor” under the SFO. The current/ongoing economic downturn should be considered when proposing monetary thresholds.
21	If your answer to Question 18 is “Yes”, do you agree that as an indicative benchmark for meaningful investment, an applicant should	Agree. This is a demonstration of investor confidence.

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No	Question	Feedback
	<p>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? Please give reasons for your views.</p>	
22	<p>If your answer to Question 18 is “Yes”, 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? Please give reasons for your views.</p>	Yes.
23	<p>Do you agree that a Pre-Commercial Company applicant must have as its primary reason for listing the raising of funds for the R&D of, and the manufacturing and/or sales and marketing of, its Specialist Technology Product(s) to bring them to commercialisation and achieving the Commercialisation Revenue Threshold? Please give reasons for your views.</p>	Yes. This ensures sustainable growth and ultimately protects investors.
24	<p>Do you agree that a Pre-Commercial Company applicant must demonstrate to the Exchange, and disclose in its Listing Document, a credible path to the commercialisation of its Specialist Technology Products, appropriate to the relevant Specialist Technology Industry, that will result in it achieving the Commercialisation Revenue Threshold? Please give reasons for your views</p>	Yes. This ensures sustainable growth and ultimately protects investors.

No	Question	Feedback
25	If your answer to Question 24 is “Yes”, do you agree with the examples proposed in paragraphs 176 to 179 (including the definition of “highly reputable customer”) of the Consultation Paper that a Pre-Commercial Company applicant could use to demonstrate a credible path to achieving the Commercialisation Revenue Threshold? Please give reasons for your views.	Agree, except the definition of “highly reputable customer,” which seems to exclude the business opportunities with other customers in a discriminatory manner.
26	Do you agree that a Pre-Commercial Company applicant must: (a) explain and disclose, in detail, the timeframe for, and impediments to, achieving the Commercialisation Revenue Threshold; and (b) if its working capital (after taking into account the listing proceeds) is insufficient to meet its needs before it achieves the Commercialisation Revenue Threshold, describe the potential funding gap and how it plans to further finance its path to achieving the Commercialisation Revenue Threshold after listing? Please give reasons for your views.	Agree. Such disclosure enhances investor protection.
27	Do you agree that a Pre-Commercial Company applicant must have available working capital to cover at least 125% of its group’s costs for at least the next 12 months (after taking into account the IPO proceeds of the applicant), and these costs must substantially consist of the following: (a) general, administrative and operating costs; and (b) R&D costs? Please give reasons for your views.	Agree. This is similar to Chapter 18A.
28	Do you agree that Independent Institutional Investors should be given a minimum allocation of offer shares in the IPO of Specialist Technology Companies to help ensure a robust price discovery process? Please give reasons for your views.	No. Price discovery process should be handled by the market participants. Underwriting syndicates will take care of pricing.
29	If your answer to Question 28 is “Yes”, do you agree with the definition of Independent Institutional Investors as set out in paragraphs 201 to 202 of the Consultation Paper? Please give reasons	N/A

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No	Question	Feedback
	for your views. Please provide any alternative definition you believe appropriate with reasons for your suggestions.	
30	If your answer to Question 28 is “Yes”, 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? Please give reasons for your views.	N/A
31	If your answer to Question 28 is “Yes”, do you agree that in the case where a Specialist Technology Company is listed by way of a De-SPAC Transaction, at least 50% of the total number of shares issued by the Successor Company as part of the De-SPAC Transaction (excluding any shares issued to the existing shareholders of the De-SPAC Target as consideration for acquiring the De-SPAC Target) must be taken up by Independent Institutional Investors? Please give reasons for your views.	N/A
32	Do you agree that in the case of a Specialist Technology Company seeking to list by introduction, the Exchange will consider granting waivers, on a case-by-case basis, from the requirement for the minimum allocation of offer shares to Independent Institutional Investors, if the applicant is able to demonstrate that it is expected to meet the applicable minimum market capitalisation at the time of listing (see paragraph 120 of the Consultation Paper), having regard to its historical trading price (for at least a six-month period) on a Recognised Stock Exchange with sufficient liquidity and a large investor base (a substantial portion of which are independent	Agree.

No	Question	Feedback
	Institutional Professional Investors)?	
33	Do you agree that there should be a new initial retail allocation and clawback mechanism for Specialist Technology Companies to help ensure a robust price discovery process? Please give reasons for your views.	No. Price discovery process should be handled by the market participants. Underwriting syndicates will take care of pricing.
34	If your answer to Question 33 is “Yes”, do you agree with the proposed initial allocation and clawback mechanism for Specialist Technology Companies as set out in paragraph 205 of the Consultation Paper? Please give reasons for your views. If your answer is “No”, please provide alternative suggestions and provide reasons for your suggestions.	N/A
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”)? Please give reasons for your views.	No. This can hardly be controlled by the listing applicant.
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. Post-listing liquidity can also be comprised of disposals by existing shareholders.
37	Do you agree that a Specialist Technology Company applicant’s Listing Document must include the additional information set out in paragraph 32 of the Draft Guidance Letter (Appendix V of the Consultation Paper) due to it being a Specialist Technology Company? Please give reasons for your views.	Agree. Good disclosure helps informed decisions.

No	Question	Feedback
38	Do you have any other suggestions for additional information that a Specialist Technology Company should include in its Listing Document in order to allow an investor to properly assess and value the company? If so, please provide your suggestion.	No.
39	Do you agree that existing shareholders should be allowed to participate in the IPO of a Specialist Technology Company provided that the company complies with the existing public float requirement under Rule 8.08(1), the requirement for minimum allocation to Independent Institutional Investors (see paragraph 200 of the Consultation Paper) and the minimum free float requirement (see paragraph 207 of the Consultation Paper)? Please give reasons for your views.	Yes. Existing shareholders can participate in the IPOs of other sectors.
40	If your answer to Question 39 is “Yes”, do you agree with the proposals set out in paragraph 225 of the Consultation Paper regarding the conditions for existing shareholders subscribing for shares in an IPO? Please give reasons for your views.	Agree. Such relaxing rules benefit IPO book-building.
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. Listing rule 10.07 is sufficient.
42	Do you agree with the scope of key persons (as described in paragraph 242 of the Consultation Paper) that should be subject to a restriction on the disposal of their holdings after listing? Please give reasons for your views.	No. The proposed requirement is much more strict than similar requirements under other listing regimes, including SPAC IPO and De-SPAC.
43	If your answer to Question 42 is “Yes”, do you agree with the proposed lockup periods on the securities of such key persons and their close associates of (a) 12 months (for a Commercial Company) and (b) 24	N/A

No	Question	Feedback
	months (for a PreCommercial Company)? Please give reasons for your views.	
44	Do you agree with the proposed lock-up period on the securities of Pathfinders SIIIs of (a) six months (for a Commercial Company) and (b) 12 months (for a Pre-Commercial Company)? Please give reasons for your views.	No. Listing rule 10.07 and GL43-12 are sufficient.
45	Do you agree that controlling shareholders, key persons and Pathfinder SIIIs should be permitted (in accordance with current Rules and guidance) to sell their securities prior to an IPO and offer them for sale in the IPO, such that only the securities retained by them after listing would be subject to the lock-up restrictions? Please give reasons for your views	Yes.
46	Do you agree that any deemed disposal of securities by a person resulting from the allotment, grant or issue of new securities by a Specialist Technology Company during a lock-up period would not constitute a breach of the lock-up requirements? Please give reasons for your views.	Agree. Deemed disposal is not something to be regulated by lock-up.
47	Do you agree that a lock-up period in force at the time of the removal of designation as a Pre-Commercial Company should continue to apply unchanged? Please give reasons for your views.	No. The level of lock-up restrictions should be relaxed when a company goes from pre-commercial to commercialisation.
48	Do you agree that a Specialist Technology Company must disclose in its Listing Document the total number of securities in the issuer held by the persons (as identified in the Listing Document) that are subject to the lockup requirements under the Listing Rules, and that the same information must also be disclosed in the interim and annual reports of the Specialist Technology Company for so long as such persons remain as a shareholder? Please give reasons for your views	Agree.

No	Question	Feedback
49	Do you agree with the scope of the additional disclosure in the interim and annual reports of Pre-Commercial Companies as set out in paragraphs 262 and 263 of the Consultation Paper? Please give reasons for your views. If your answer is “No”, please provide alternative suggestions and provide reasons for your suggestions.	Agree. These are proper business updates.
50	Do you agree that only Pre-Commercial Companies should be subject to the ongoing disclosure requirements referred to in Question 49? Please give reasons for your views.	Yes. Such disclosure promotes the certainty of commercialisation.
51	Do you agree that Pre-Commercial Companies should be subject to a remedial period of 12 months to re-comply with the sufficiency of operations and assets requirement before delisting, in the event that the Exchange considers that a Pre-Commercial Company has failed to meet its continuing obligation to maintain sufficient operations or assets? Please give reasons for your views	Yes.
52	Do you agree that Pre-Commercial Companies must not effect any transaction that would result in a fundamental change to their principal business without the prior consent of the Exchange? Please give reasons for your views.	No. Such transaction can be subject to a higher threshold of shareholders’ approval in lieu of prohibition.
53	Do you agree that Pre-Commercial Companies must be prominently identified through a “PC” marker at the end of their stock names? Please give reasons for your views.	Yes. This is an easy identification.
54	Do you agree that the continuing obligations for Pre-Commercial Companies no longer apply once a Pre-Commercial Company has met the requirements in paragraph 270 of the Consultation Paper and ceases to be regarded as a Pre-Commercial Company? Please give reasons for your views.	The level of disclosure should be relaxed when a company goes from pre-commercial to commercialisation.
55	Do you agree with the proposed requirements for Pre-Commercial	Agree.

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No	Question	Feedback
	Companies to demonstrate to the Exchange that they should no longer be regarded as a Pre-Commercial Company (see paragraphs 269 to 272 of the Consultation Paper)? Please give reasons for your views.	