Norwich

By email ([redacted])

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15 October 2021

To Whom It May Concern,

Subject : Consultation Paper on Special Purpose Acquisition Companies

Respondent : Norwich Investment Limited, of which the Founder and CEO of the company is **Jason Wong,** the Sponsor of four US-listed SPACs and two SPACs in the process of becoming listed on the NASDAQ

Introductory Remarks

Norwich Investment Limited ("Norwich", "We") is an investment holding company established in BVI, and also the Sponsor of Tottenham Acquisition I Limited (NASDAQ: TOTA), a US listed SPAC that has successfully completed its de-SPAC transaction in December 2020. Mr. Jason Wong, the Founder and CEO of Norwich, is a pioneer of Asian SPAC listing in the US, where he launched the first Asian SPAC after 2008 global financial crisis, and was subsequently the sponsor of Tottenham Acquisition I Limited (NASDAQ: TOTA) and other recently listed SPACs including Ace Global Business Acquisition Limited (NASDAQ: ACBA), leading the way in Asia in terms of the number of SPACs launched. In light of our experience with US SPACs, our team has carefully studied the Consultation Paper on Special Purpose Acquisition Companies published by The Stock Exchange of Hong Kong Limited (the "Exchange") on 17 September 2021, and would hereby like to provide some comments and suggestions in response to the Consultation Paper.

Responses to the Consultation Paper

The reason US SPACs boomed in 2020 is that they balanced out the interests of SPAC promoters, investors, and target companies with an established and balanced regulatory framework. Under this regulatory framework, SPAC could give full play to its inherent advantages of "high listing certainty, short approval period, and controlled costs," and establish a relatively convenient and efficient listing alternative to traditional IPOs.

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The Negative Impact of Tying Up Redemption Rights to Opposition Votes on De-SPAC Transactions

The Consultation Paper stipulates that a SPAC must not accept elections for redemption other than the SPAC Shares voted against the relevant resolutions at the general meeting, and the de-SPAC transaction must be approved by the SPAC shareholders at a general meeting. In the case of warrants, there is a prohibition of the issuance of warrants that entitle the holder to purchase more than a third of a share upon their exercise and prohibition of the issuance of warrants in aggregate (i.e., including SPAC Warrants plus Promoter Warrants) that, if exercised, would result in more than 30% of the number of shares in issue at the time such warrants are issued. From the SPAC promoter's perspective, the proposed rules that tie investors' redemption rights to the opposition votes and stipulate that the de-SPAC transaction must be approved by its shareholders at a general meeting will increase the uncertainty of the de-SPAC transaction and bring greater SPAC liquidation risk. Moreover, the Consultation Paper stated the funds expected to be raised by a SPAC from its initial offering must be at least HK$1 billion, which means a greater threshold would be required for launching SPACs in Hong Kong while having a higher SPAC liquidation rate. We believe this will markedly undermine the enthusiasm of the SPAC promoters. Investors would only be able to redeem their shares by voting against the de-SPAC transaction, and the cap on proportion of warrants issuable is much lower than in the US and Singapore. The limitation of these rules may make SPACs in Hong Kong less attractive for investors to enter the market.

In fact, the negative impact on SPAC issuance of tying up redemption rights to opposition votes has been proven in the US SPAC market. In October 2010, US adopted SPAC-specific listing standards, such that only public shareholders who vote against the proposed de-SPAC transaction have the right to redeem their shares if the deal closes successfully after being approved by a majority of votes cast by public shareholders. Due to this rule at the time, some hedge funds deliberately threatened to use their voting rights in order to obtain greater benefits, resulting in quite a number of de-SPAC transactions failing or liquidating. It increased the uncertainty of de-SPAC transactions, which resulted in a considerably small number of successful SPAC listing with a high SPAC liquidation rate. Statistics show that only 7 SPACs were listed in the US in 2010, of which 4 were liquidated, representing a liquidation rate of 57%. In 2012 and 2014, a total of 9 and 12 SPACs were launched respectively, of which 3 and 4 were liquidated respectively, and both years saw a liquidation rate of 33.3%.

After 2015, US adjusted SPAC rules to allow investors to exercise the redemption right regardless of whether they voted for or against the proposed business combination. With this adjustment, SPACs are now able to better balance out the interests of all parties. The risk of liquidation of the SPAC is significantly reduced for the SPAC Promoters, and it provided higher certainty of listing for de-SPAC targets, making this public listing method more attractive. In 2019, there were 59 SPACs listed, of which only one was liquidated, resulting in a liquidation rate of just 1.7%. With the global pandemic taking hold in 2020, there was a surge in demand for financing by the technology sector, and a need to access capital markets in a more efficient way. This further amplified the advantages of SPACs, creating a boom with the number of SPAC IPOs and their scale of fundraising surpassing traditional IPOs.

We understand that the Exchange ties the redemption rights to opposition votes in the hope of ensuring that de-SPAC transactions will be closed with credible targets to maintain the quality and reputation of the Hong Kong market. However, we feel that based on the Consultation Paper, many of the proposed rules shall serve to ensure combination with credible target companies for SPACs. These include: (1) at least one of the SPAC Promoters must hold a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the Hong Kong Securities and Futures Commission ("SFC"); with professional experience, qualification and capability to help identify high-quality de-SPAC targets; (2) the subscription and trading of a SPAC's securities will be restricted to professional investors up to the point of successful combination (merger), as professional investors are capable of making sophisticated judgments on SPAC transactions and should have a higher risk tolerance than retail investors; (3) a Successor Company must meet all new listing requirements and must also appoint at least one sponsor, who must conduct IPO Sponsor due diligence in compliance with the listing rules, to assist with the application for listing; (4) mandatory third-party independent Private Investments in Public Equity ("PIPE") investment, which ensures the fairness of the de-SPAC target valuation and enhances the transparency of the de-SPAC transactions; (5) application of existing requirements for IPOs on any forward looking statements in the listing document of a de-SPAC transaction.

Low Warrant Issuance Cap Could Reduce Initial Investor Returns

The Consultation Paper mentions the prohibition of the issuance of warrants that entitle the holder to purchase more than a third of a share upon their exercise and prohibition of the issuance of warrants in aggregate (i.e., including SPAC Warrants plus Promoter Warrants) that, if exercised, would result in more than 30% of the number of shares in issue at the time such warrants are issued. This is not a requirement in the US. According to SPAC Insider data, nearly 50% of the US SPACs launched in 2020 had SPAC units each comprising one (1) warrant or one-half (1/2) of one warrant. In the recent past, after the tightening of SPAC regulations in April 2021, the newly launched SPACs in the US basically adopt one unit with one (1) or half (1/2) warrants to attract investors, and some even contained a corresponding number of Rights on top of the 1 warrant. On the other hand, The Singapore Exchange ("SGX") sets 50% as the maximum percentage limit of dilution with respect to conversion of warrants. In contrast, Hong Kong would have a lower dilution cap for warrants conversion, and the corresponding amount offered to investors is lower than those offered in the US and Singapore. Moreover, the time frame for a de-SPAC transaction in Hong Kong will be set to 24 + 12 months to allow the promoters sufficient time to find quality targets and maintain the quality of the de-SPAC transactions, while in the US, the de-SPAC transaction is usually completed within 24 months after the listing of SPAC.

This means that the average time to complete a de-SPAC transaction in Hong Kong may be longer than that in the US while the number of warrants received by investors and the premium appreciation return through the exercise of warrants is lower, both of which would diminish its appeal to investors. Given that Asia is the most active region in the global economy and that investors also have higher expectations on investment returns, we believe low returns through the warrant exercise would greatly reduce their enthusiasm in the investment participation.

The Exchange may have concerns about the dilution effect after the warrants are exercised. We have observed that some market participants consider warrants detrimental to their investment, but such fears are unfounded. The dilution effect on a Successor Company that has completed a reverse SPAC merger is not as significant as many imagine. According to the SPAC Insider, for SPACs that had completed de-SPAC transactions between 2019 and 2020, the average coefficients for the valuation of the target company and the amount of SPAC IPO proceeds are 6.1 times and 7.9 times respectively. If, for example, we assume the valuation of the target company is 7 times the SPAC IPO proceeds and that one warrant is eligible to conversion into one ordinary share, the maximum dilution effect after exercising the warrants is only 12.5% (assuming that the SPAC IPO shareholders' shares opt for redemption). Not only that, PIPE investors are often introduced to SPACs during a de-SPAC transaction. If we take PIPE investment into account, it further reduces the dilution effect. Many also neglect the fact that the conversion of warrants into shares is not without consideration. In fact, the warrant exercise price is higher than the subscription prices of a SPAC IPO and a PIPE investment (which is usually similar to the subscription price during a SPAC IPO). For example, the warrant exercise price in US is normally US$11.50. With the warrant exercise price higher than the subscription prices of SPAC IPO and PIPE investment, the Successor Company would be able to secure further financing and increase the size of its public float, which in turn would allow it to enhance its shares' liquidity and further optimise its shareholder base. Thus, we believe the exercise of warrants should not be simply seen as a dilution in shareholding.

High Shareholding Ratio Requirements for PIPE Investment Might Cause Pressure on Financing during De-SPAC Transactions

We strongly agree with the Exchange in including independent PIPE investment in SPAC. In fact, we have published an article sharing a similar view in The Hong Kong Economic Journal in June 2021, which suggested that Hong Kong SPACs could follow Chapter 18A of the Exchange Listing Rules, introducing the concept of senior investors. We even proposed that the same idea could be applied to US SPACs in the article. We believe that senior investors will simultaneously help to improve the fairness of the valuation and also increase the transparency of the de-SPAC transaction. However, we question the need for independent PIPE investment constituting at least 15 to 25% of the expected market capitalisation of the Successor Company. Based on the Consultation Paper, independent third-party investors must include at least one asset management firm or fund, with assets under management or fund size of at least HK$1 billion, beneficially owning at least 5% of the issued shares of the Successor Company, where 5% is the highest requirement of the investment proportion from senior investors under Chapter 18A. According to the Consultation Paper, the de-SPAC transaction must be approved by the SPAC shareholders at a general meeting, which means that 50% of the IPO proceeds will be retained in the end. In this case, if the PIPE investment still constitutes 25% (or 15-25%) of the expected market capitalisation of the Successor Company, the ratio of public shareholders after the SPAC merger will be higher than the ratio of companies seeking listing through traditional IPO. Such high requirements on PIPE will also give the target company a lot of pressure in financing during the de-SPAC transaction. There are varying financing needs for projects of different nature, and is particularly true for technology companies. We believe the market should be allowed to make

their own decision, while the financing needs of the enterprise should be determined according to its own scale and circumstances.

SPAC Investment Restricted to Institutional Investors during Initial IPO Likely to Increase Retail Investor Risk Exposure

The Consultation Paper proposes that only professional investors may subscribe to or trade SPAC shares prior to the completion of the de-SPAC transaction. We understand that the intention of the Exchange is to avoid having retail investors bear the risk of stock price fluctuations, thus only allowing institutional investors to take part. However, if the stock price surges before the merger, and retail investors can only buy post-merger shares at a higher price, would that mean that retail investors are not able to enjoy the “downside protection” during a SPAC IPO, while at the same time having to pay higher prices buying shares on a secondary market? If so, would that not effectively mean that institutional investors can easily take advantage of retail investors? The actual outcome may deviate from the Exchange’s original intended effect. We suggest that the Exchange re-consider such requirement.

Dual-track Listing is Unfair to Promoters

The Consultation Paper states that issuers are allowed to take a “dual-track” approach to go public, whereby they can simultaneously apply for listing via a traditional IPO and negotiate with several SPAC Promoters for listing via a SPAC. The Exchange believes that the "dual-track" option will attract companies from Greater China to go public in Hong Kong. However, we believe this is a mispositioning of SPACs. SPAC listing is a relatively new listing alternative to the traditional IPO. It has achieved phenomenal popularity and success in the US since 2020 due to the unique advantages of this listing method. Many countries and regions around the world are actively exploring the feasibility of introducing SPAC to their markets. The Exchange should consider how to implement this new way of listing as an alternative to the traditional IPO, instead of treating SPAC as a tool to attract overseas companies to Hong Kong for IPO listing. Moreover, this is unfair to SPAC Promoters as SPACs are subject to a merger deadline and will face liquidation if they fail to complete the merger within the given time frame. Allowing issuers to list through a traditional IPO while negotiating for a SPAC merger would greatly increase the risk of failure in de-SPAC transaction or liquidation.

Suggesting to Extend the Lock-up Period for Controlling Shareholders to Further Cement their Interests with Investors

We support certain terms proposed by the Exchange, such as setting a 12-month lock-up period for SPAC Promoters after the merger, whereas the lock-up period for the controlling shareholders of the Successor Company would be in line with the requirements of the listing rules, i.e., such shareholders shall be subject to a lock-up period for the first 6 months from the date of listing, and during the following 6 months, any share disposal by controlling shareholders shall not affect their controlling position. We think that the Exchange should consider extending the lock-up period for the controlling shareholders of the Successor Company, so that the bond between the interests of the controlling shareholders and that of investors would be further strengthened. The lock-up period for controlling shareholders could be extended to 12 months after the merger, consistent with that of the promoters, or the Exchange could even consider extending it to 24

months after the merger. For companies that are not yet profitable at the time of the merger (but have satisfied other financial requirements for listing), the Exchange may consider applying the listing rules of STAR market of Greater China, where the controlling shareholders, board of directors, and core technicians are not permitted to sell their shares before the company becoming profitable. (STAR Market of Greater China stipulates that companies having been listed for more than 5 years are no longer subject to this restriction. The Exchange may wish to consider lowering the requirement from 5 years to 3 years).

Hong Kong has Great Potential to Become the Hub for Asian SPACs

Hong Kong actually has several advantages over Singapore to become the hub for Asian SPACs. Firstly, Hong Kong is capable of attracting global capital. According to the SFC, Hong Kong total assets under asset and wealth management businesses in 2020 was HK$34.93 trillion, with non-Hong Kong investors accounted for 64% of the total assets under management (10% from Greater China investors and 50% from overseas investors). In addition, the Exchange ranked among the top three in the world in terms of IPO financing amount. Secondly, with Greater China as its hinterland, Hong Kong is able to access a reservoir of technology companies. The STAR Market and the GEM in Greater China has implemented a registration system and the Beijing Stock Exchange has showed its support to relatively smaller innovative enterprises. However, according to the latest data published by the Chinese Ministry of Science and Technology, the number of high-tech firms in Greater China exceeds 200,000, including 20,000 companies located in Zhongguancun Park. This indicates that there is excess demand for financing via public listing. For instance, in May 2021, while meeting with the Zhongguancun Listed Companies Association, our team observed that there were many technology companies looking for ways to go public, and many companies showed great interest to go public through a SPAC merger. Furthermore, the overall environment is in favour of Hong Kong. The recent regulatory issue of Didi and rising US-China tensions may mean tightened supervision on PRC enterprises listing in the US.

The measures proposed in the Consultation Paper should suffice to ensure the quality of de-SPAC targets. The Exchange could consider adopting rules that are either in line with or less stringent than those stipulated by SGX in order to attract more promoters and investors to participate in Hong Kong SPACs. For example, easing the rules to allow all independent shareholders to redeem SPAC Shares regardless of their voting decision on a business combination, and applying a warrant conversion ratio closer to that of the US SPAC market. We believe that the market should be allowed to decide its own warrant conversion ratios as long as it falls within a maximum warrant conversion ratio of one warrant to one ordinary share.

The Exchange Should Educate the Market About the Efficiency of SPACs Over Traditional IPOs

The main reason that SPACs have gained so much public attention is that they represent a new viable listing alternative which can be more convenient than traditional IPOs. This has been demonstrated by the US SPAC market, where countless companies have completed their listings and fundraising processes within a shorter time frame via SPAC mergers. Given that the Exchange is introducing this new SPAC framework in view of those factors, market participants

should be informed of how SPACs enjoy an advantage over traditional IPOs, insofar as they can facilitate a speedy listing and financing for enterprises seeking a listing. By clarifying this, companies seeking to become listed would also able to achieve their goals of becoming a public company more quickly and efficiently.

Conclusion

We understand that the Exchange is committed to protecting the interests of investors as well as to maintaining the quality of the Hong Kong market. The Consultation Paper has set stringent measures to ensure that SPACs can only be launched by experienced and reputable promoters who are capable of identifying target companies with great potential. Such requirements are undeniably instrumental to the development of SPAC market in the long run. However, we would like to highlight that in our years of operational experience, the core advantage of SPAC listing is maintaining proportionate attention to the interests of all parties and forming a balanced regulatory framework, thereby establishing a convenient, efficient and fair listing alternative. Excessive thresholds and restrictions may undermine the balanced regulatory framework of the SPAC listing method and reduce the appeal of SPACs in Hong Kong. We believe the Exchange will evaluate the pros and cons and adjust the framework accordingly after receiving feedback from the market and various interested parties, and will strike a good balance between investor protection, market quality and market popularity. We look forward to seeing the Exchange's implementation of this SPAC listing framework in the near future.

Yours faithfully,

For and on behalf of

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