October 21, 2021

Re: Consultation Paper on Special Purpose Acquisition Companies

[redacted]
[redacted]
Hong Kong Exchanges and Clearing Limited

Dear [redacted]:

We are submitting this letter in response to the consultation paper (the "**Consultation Paper**") published by The Stock Exchange of Hong Kong Limited on September 17, 2021 seeking market feedback on proposals to create a listing regime for special purpose acquisition companies (the "**SPACs**") 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.

We are excited to see that HKEX is taking the initiative to consider the implementation of a SPAC listing regime in Hong Kong, which we believe will be an important expansion of HKEX's listing framework and enhance the attractiveness of the Hong Kong listing market.

We understand the importance of investor protection and quality of the market to Hong Kong's competitiveness as an international financial center. The proposals in the Consultation Paper demonstrate such principle by establishing two layers of safeguard for the investors: at the front end, the proposals seek to ensure that only SPACs with experienced and reputable SPAC Promoters are listed; and at the back end, the proposals seek to ensure that De-SPAC Targets must meet the same eligibility requirements as a traditional IPO under the HKEX listing rules.

We are very supportive of setting a high entry point for SPAC listing applicants and De-SPAC Targets, and we note that various measures proposed in the Consultation Paper provide robust investor protections. Among other things, the proposals in the Consultation Paper (i) restrict the subscription and trading of a SPAC's securities to Professional Investors only, with additional approval, monitoring and enforcement measures to ensure compliance with such requirements, (ii) require SPAC Promoters to meet suitability and eligibility requirements, including the requirement for each SPAC to have at least one SPAC Promoter to be a firm that holds a Type 6 and/or a Type 9 license issued by the SFC and at least 10% of the Promoter Shares, and (iii) require a Successor Company to meet all new listing requirements (including IPO Sponsor engagement to conduct due diligence, minimum market capitalization requirements and financial eligibility tests). We believe that these are important and effective measures to provide investor protection. However, we believe that certain other measures as discussed in more details below warrant some reassessment when weighing the minimal incremental protections they may afford the investors against the significant chilling effect on SPACs listing applicants and De-SPAC Targets.

Independent Third Party Investment (paragraphs 295 to 298 of the Consultation Paper)

The Consultation Paper proposes that outside independent PIPE investment must constitute at least 25% of the expected market capitalization of the Successor Company (or at least 15%, if the Successor Company's expected market capitalization is over HK$1.5 billion) and result in at least one asset management firm or fund with assets under management/fund size of at least HK$1 billion beneficially owning at least 5% of the issued shares of the Successor Company as of the listing of the Successor Company.

While we fully appreciate that outside PIPE investment could provide a form of validation on the valuation of the De-SPAC Target, a mandatory requirement for a minimum PIPE investment amount would in effect require a certain level of dilution to existing SPAC investors and shareholders of the De-SPAC Target, even if there is no need for the capital raise as existing shareholders of the De-SPAC Target roll over their shareholding into the Successor Company. The consequence of mandating a minimum PIPE investment amount would likely significantly decrease the certainty of the SPAC's ability to complete a De-SPAC Transaction and unduly deter SPAC listings in the first place. Potential SPAC Promoters would be reluctant to initiate a SPAC listing and commit to a guaranteed PIPE financing amount considering the time gap between the SPAC listing and the De-SPAC Transaction and the unpredictability of market condition changes during such period.

We note that the valuation of the Successor Company is a key negotiation point between a SPAC and the De-SPAC Target. As part of the bargaining process, a De-SPAC Target often has a minimum cash requirement as a closing condition to ensure the Successor Company has raised sufficient capital from the PIPE and funds in the trust account for the growth and continuing business operation of the Successor Company. We believe that the market participants are best placed to decide, and there is little need for regulatory intervention, on this commercial issue.

We believe that the valuation of the De-SPAC Target would be better validated by the ensuing stock price following the announcement of the De-SPAC Transaction and the extent of the SPAC shareholders' redemption prior to the consummation of the De-SPAC Transaction, as the shareholders are free to elect for redemption if they consider the terms of the De-SPAC Transaction unattractive. The shareholders' redemption option serves as a natural deterrent for the SPAC Promoter's over-valuation of the De-SPAC Target. This is particularly true in the regime proposed by the Consultation Paper compared with regimes in other jurisdictions, as under the rules proposed in the Consultation Paper, only Professional Investors will hold the SPAC's securities prior to the completion of the De-SPAC Transaction, who are in a better position than the retail investors in other jurisdictions to evaluate the merits of a proposed De-SPAC Transaction and make their voting and redemption decisions.

In addition, the SPAC Promoter already has a strong incentive to obtain as much PIPE financing as necessary to complete the De-SPAC Transaction, both for the valuation validation purpose and for the purpose of securing sufficient cash balance for the Successor Company, given the uncertainty created by the shareholders' redemption option. In this

regard, the interests of the SPAC Promoter and the SPAC shareholders are well aligned. Therefore, we do not think requiring a mandatory minimum PIPE investment amount is necessary or incrementally beneficial to the investors. Instead, it would be more beneficial to the SPAC shareholders if the SPAC Promoter has the flexibility to determine the amount of PIPE investment based on the actual capital needs of each specific De-SPAC Transaction. In summary, we believe the PIPE investment amount and allocation would be best left to the discretion of the market participants, i.e., Promotors, Professional Investors, Target Company management and shareholders and PIPE investors, who are capable of and have the necessary means for fending for themselves.

Shareholder Vote on De-SPAC Transactions (paragraphs 319 to 322 of the Consultation Paper)

The Consultation Paper proposes that a De-SPAC Transaction must be approved by the SPAC's shareholders other than any shareholder with a material interest in the transaction, which means that the SPAC Promoter will not be entitled to vote on the De-SPAC Transaction.

An important advantage of De-SPAC Transactions over traditional IPOs is the greater price and deal certainty due to the limited number of parties involved in determining the price at which the target company lists. The fact that the value of a De-SPAC Target is determined by negotiations between the target and the SPAC and that the expertise of a SPAC Promoter may allow it to more accurately ascribe a fair value to the De-SPAC Target makes De-SPAC Transactions more attractive than traditional IPOs to De-SPAC Targets, especially if the targets are businesses with very few listed issuer comparables or if they face some other uncertainty or complexity. In our view, this is the most important feature that makes a SPAC regime attractive, especially given that the other purported benefits of SPAC, such as reduced time to listing, are more debatable (we note that with the IPO Sponsor due diligence requirements and all other new listing requirements applicable to the De-SPAC Targets, the De-SPAC process may not be faster than traditional IPOs in reality). If the De-SPAC Transaction will be subject to the independent shareholders' approval, it essentially eliminates the most salient advantage of De-SPAC Transactions and even risk putting a De-SPAC Target at a disadvantage vis-a-vis a company going through a traditional IPO process given all the other costs and restraints associated with SPAC listing and De-SPAC Transactions.

Further, in a De-SPAC Transaction, the shareholders' redemption right in effect functions as a vote by the shareholders, who may choose to redeem their SPAC Shares in large numbers if they do not agree with the valuation that the SPAC Promoter has negotiated with the De-SPAC Target.

In addition, if there are PIPE or other outside investments in connection with the De-SPAC Transaction, which is often the case according to US De-SPAC transaction data, they can also serve as an independent checkpoint for the valuation of the De-SPAC Target.

With all these safeguards, adding another requirement of obtaining the approval of shareholders unaffiliated with the SPAC Promoter would create significant deal uncertainty and undercut the fundamental benefits of De-SPAC Transactions.

Alignment of Voting with Redemption (paragraphs 340 to 342 of the Consultation Paper)

The Consultation Paper proposes that a SPAC shareholder will only be able to elect to redeem its SPAC Shares if it votes against a De-SPAC Transaction.

We believe that making a SPAC shareholder's redemption right contingent upon such shareholder's voting against the De-SPAC Transaction would increase deal uncertainty while it does not afford the shareholders any meaningful benefit. As discussed above, the shareholders' redemption option essentially functions as a test for the level of support that the shareholders have for a proposed De-SPAC Transaction, and we do not believe that a significant weight should be given to the voting decisions of the shareholders, nor should the shareholder vote function as the check on the reasonableness of the De-SPAC Transaction.

The Consultation Paper raised a concern that the interests of non-redeeming shareholders may be prejudiced by votes cast by redeeming shareholders. However, if non-redeeming shareholders are already in support of the De-SPAC Transaction, we do not see how their interests would be prejudiced by additional votes in favor of the transaction cast by other shareholders, as the non-redeeming shareholders would want the transaction to receive sufficient votes and be successfully completed.

We appreciate it that the Consultation Paper proposes that SPAC shareholders will be entitled to keep any SPAC Warrant they hold even if they elect to redeem all or part of their shareholding. This theoretically provides the redeeming shareholders a possibility of additional return in the future. However, for the reasons discussed above, the coupling of voting and redemption would reduce the likelihood of a successful De-SPAC Transaction, and if there is no successful De-SPAC Transaction, the SPAC Warrants would be worthless. Therefore, the coupling of voting and redemption substantially undermines the potential upside afforded by the SPAC Warrants.

We also note that none of the major jurisdictions which have adopted or are adopting a SPAC regime, include the US, the UK, Singapore, requires that a SPAC shareholder must vote against the De-SPAC Transaction in order to exercise its redemption right. If the SPAC regime in Hong Kong imposes such a requirement, we think that it will be viewed as a major disadvantage and make the Hong Kong SPAC regime much less attractive to market participants.

Finally, we would like to reiterate our support for the SPAC listing framework proposed in the Consultation Paper and we are excited to envision its provision of another attractive route to listing in Hong Kong. We respectfully ask that HKEX consider our comments set

forth above as we believe they will help improve the attractiveness of the proposed regime while maintaining sufficient investor protections.

Please do not hesitate to contact us at [redacted] ([redacted], [redacted]) if you have any questions regarding the foregoing.

Very truly yours,

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深石控股管理（深圳）有限公司

Destone Capital, LLC