

Consultation Conclusions

Special Purpose Acquisition Companies



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EXECUTIVE SUMMARY

Purpose

1. This conclusions paper sets out conclusions to the Exchange's consultation on proposals to create a listing regime for SPACs that it published on 17 September 2021.

Introduction

2. The Exchange received 96 responses¹ to the Consultation Paper from a broad range of respondents. The overwhelming majority of responses to the Consultation Paper generally supported the Exchange's proposals.
3. After considering the feedback, the Exchange has decided to implement the proposals set out in the Consultation Paper broadly as proposed, with some amendments to reflect comments made by respondents and to clarify the intent and practical aspects of some Rules. These amendments and clarifications are set out in this conclusions paper and summarised below.
4. All the responses are available to view on the HKEX website ([link](#)) (except those from respondents who indicated that they do not want their response to be published). A list of respondents is set out in Appendix III. The Exchange would like to thank all those who responded.

Summary

5. The Exchange will implement the proposals as set out in the Consultation Paper, subject to certain amendments. The key amendments are summarised below:
 - (a) **SPAC initial listing open market requirement:** to reflect respondents' comments that requiring a SPAC to distribute its securities to a minimum of 30 Institutional Professional Investors for its initial listing is a high threshold and may not be commercially viable for some SPACs, we have lowered this minimum to 20 Institutional Professional Investors (see paragraphs 59 to 65). A SPAC would still be required to (i) distribute at least 75% of the securities it issues for its initial listing to Institutional Professional Investors and (ii) distribute the securities it issues for its initial listing to a minimum of 75 Professional Investors (of either type²) overall.
 - (b) **SPAC Promoter licensing requirement:** whilst we will maintain our original proposal that at least one SPAC Promoter be a firm that holds: (a) a Type 6 /Type 9 license issued by the SFC; and (b) at least 10% of the Promoter Shares, we will consider granting waiver on a case-by-case basis (for example, to accept a SPAC Promoter if they have overseas accreditation that is equivalent to an SFC Type 6 and/or Type 9 license) (see paragraphs 116 to 123).

¹ Six of these 96 responses were entirely identical in content to another response.

² Institutional Professional Investors or Non-Institutional Professional Investors.

- (c) **SPAC directors:** instead of requiring the majority of the board of a SPAC be composed of representatives of the SPAC Promoters who nominate them, we will instead require adequate representation of SFC licensed individuals on the board. A SPAC's board of directors must include at least two Type 6 or Type 9 SFC-licensed individuals (including one director representing the licensed SPAC Promoter) (see paragraphs 142 to 151).
- (d) **Alignment of voting with redemption:** the initial proposal to align voting with redemption may create the unintended result of incentivising shareholders to vote against the De-SPAC Transaction for the sole reason that it provides them with the option to redeem. Such an outcome will mean that those voting results do not accurately reflect shareholders' views on the terms and valuation of the De-SPAC Transaction.

Based on the above, and in response to the comments from both buy-side and sell-side respondents, we have decided not to adopt the proposal. Instead we have strengthened our proposed requirements on PIPE investments to provide such a check (see (e) below and paragraphs 326 to 331).

- (e) **Mandatory PIPE investment:** in light of the removal of the alignment of redemption with voting, we have strengthened our requirements for independent PIPE investments to support the valuation of the De-SPAC Target and the level of investor interest in the Successor Company. All PIPE investors must be Professional Investors. A SPAC will be required to raise:
- (i) the following amounts from independent PIPE investors³, staggered to cater for De-SPAC Targets of different sizes (see paragraphs 238 to 242):

Minimum percentage of independent PIPE investment	Negotiated De-SPAC Value
25%	below HK\$2 billion
15%	HK\$2 billion or more and less than HK\$5 billion
10%	HK\$5 billion or more and less than HK\$7 billion
7.5%	HK\$7 billion or more

³ Investors meeting independence requirements equivalent to those applied to IFAs.

- (ii) significant investment from independent sophisticated investors - at least 50% of the independent PIPE referred to in sub-paragraph (i) above must come from at least three sophisticated investors, each being an asset management firm with assets under management of at least HK\$8 billion or a fund of a fund size of at least HK\$8 billion. A fund managed by a fund manager that has assets under management of at least HK\$8 billion would qualify as a sophisticated investor for this purpose (see paragraphs 248 to 249).
- (f) **Warrant dilution cap:** to reflect respondents' comments that the proposed warrant dilution cap of 30% may not provide a sufficient commercial incentive for potential investors in a SPAC's IPO, we have increased this cap to 50% and required that (i) new investors in a Successor Company be fully informed of this dilution prior to their investment (see paragraph 265) and (ii) the minimum exercise price of the SPAC Warrants and Promoter Warrants must be at a price that represents at least a 15% premium to the issue price of the SPAC Shares (see paragraph 94). We will not implement the proposed warrant to share ratio cap and the separate cap on dilution from Promoter Warrants; and
- (g) **Rights to additional Successor Company Shares (earn-out rights):** we will permit a SPAC to issue earn-out rights to SPAC Promoters that are convertible into ordinary shares of the Successor Company, if the Successor Company meets pre-defined performance targets.

As SPAC Promoters may not be involved in the management and operation of the Successor Company, it may have no influence on its business performance. Consequently, we will allow share price to be used as a performance target for the earn-out rights as long as those share price performance targets are:

- (i) at least 20% higher than the issue price of the SPAC Shares at listing of the SPAC;
 - (ii) satisfied by exceeding a pre-defined volume weighted average price of the Successor Company's shares over a period of not less than 20 trading days within a 30 consecutive trading day period, with such period commencing at least six months after the listing of the Successor Company (see paragraphs 284 to 286).
- 6. The Exchange also received feedback from respondents that the Exchange should exempt SPACs from the 1% brokerage fee requirement for the placing of SPAC securities at their initial listing. This is because applying the charge will result in SPAC Investors receiving less than the total amount they paid for their investment upon redemption of their SPAC shares or upon liquidation of the SPAC. The Exchange agrees with these comments and will apply such exemption (see paragraphs 475 to 477).
- 7. The Rules set out in Appendix IV of this conclusions paper, together with the Guidance Letter on SPACs that forms Appendix V of this paper, will come into effect on Saturday, 1 January 2022.

Listing Applications / Enquiries

8. A SPAC seeking a listing in Hong Kong may submit a formal listing application after the new regime becomes effective. We expect an IPO Sponsor that assists in the SPAC's listing application to be formally appointed after the publication of this paper as the terms of such engagement should reflect the applicable Rule requirements (including modifications made to our consultation proposals) as set out in this paper.

CHAPTER 1 INTRODUCTION

Background

9. On 17 September 2021, the Exchange published a Consultation Paper to seek views on the Exchange's proposals to create a listing regime for SPACs in Hong Kong. The consultation period ended on 31 October 2021.

Number of responses and nature of respondents

10. The Exchange received 90 non-duplicate⁴ responses to the Consultation Paper from a broad range of respondents. All responses are available to view on the [HKEX website](#), and a full list of respondents (other than those who requested anonymity) is set out in **Appendix I**.
11. A breakdown of institutional respondents and individual respondents to the consultation by category are set out, respectively, in Table 1 and Table 2 below.⁵

Table 1: Breakdown of institutional respondents by category

CATEGORY	NUMBER	%
Accounting Firms	5	6%
Corporate Finance Firms / Banks	14	17%
HKEX Participants	3	4%
Investment Managers	11	13%
Law Firms	16	20%
Listed Companies	3	4%
Professional Bodies / Industry Associations	21	26%
SPAC Promoters	3	4%
Other Companies / Organisations	6	7%
TOTAL⁶	82	100%

⁴ Six responses were found to duplicate other responses and will not be counted for the purpose of a quantitative and qualitative analysis of the responses.

⁵ Due to rounding, the total percentages in each table may not add up to 100%.

⁶ Total number excludes duplicated responses.

Table 2: Breakdown of individual respondents by category

CATEGORY	NUMBER	%
Corporate Finance Staff	2	25%
HKEX Participant Staff	2	25%
Lawyers	1	13%
Retail Investors	1	13%
Other Individuals	2	25%
TOTAL⁷	8	100%

12. A quantitative analysis of all responses forms **Appendix II** to this paper. The methodology we used to analyse responses forms **Appendix III** to this paper.

⁷ Total number excludes duplicated responses.

CHAPTER 2 MARKET FEEDBACK AND CONCLUSIONS

(A) CONDITIONS FOR LISTING

I. Investor Suitability

13. The Exchange proposed to restrict the subscription and trading of SPAC securities to Professional Investors.

Responses Received

14. 63% of respondents who commented (52 respondents) supported this proposal⁸, while 37% of those who commented (30 respondents) did not support it.

Comments

15. The majority of respondents who supported the proposal believed that, as SPACs are new to Hong Kong, retail investors are unlikely to be aware of the risks associated with them, and would be more susceptible to market rumour and price volatility than Professional Investors and so considered the proposal conducive to investor protection.
16. Respondents opposing the proposal stated that:
- (a) retail investors should be allowed to participate, as this was permitted in other jurisdictions with SPAC listings and the proposal would put Hong Kong at a competitive disadvantage to these jurisdictions;
 - (b) the proposal would unfairly deprive retail investors of potentially profitable investment opportunities and access to assets and/or businesses traditionally open only to venture capital and private equity investors;
 - (c) it was important to have a broad investor base to demonstrate adequate price support and strong market demand to secure PIPE investments;
 - (d) the Professional Investor-only limitation would lead to market fragmentation and a lack of liquidity in the market, undermining the competitiveness and interests of the market as a whole when compared with other jurisdictions that allows retail participation;
 - (e) the risk of investing in SPAC securities is not as high as perceived, in light of the relatively stable price performance of SPAC Shares prior to a De-SPAC Transaction, and the proposed safeguards in respect of De-SPAC Transactions, including the availability of a redemption option and application of existing Listing Rule requirements; and
 - (f) the potential risks for retail investors could be addressed by warnings and education.

⁸ Question 1 of the Consultation Paper.

Exchange Conclusion

17. As a SPAC is a cash shell without any operations, the price of its securities is much more likely, relative to an operating company, to be driven by speculation and rumour. Also, any price volatility arising from such circumstances is likely to be magnified in SPAC Warrants trading due to the gearing inherent in warrant prices. We therefore maintain our position that Professional Investors are better placed to assess, monitor and mitigate the combination of risks associated with SPACs.
18. In terms of market competitiveness, we would like to highlight recent developments in the US where similar concerns on retail participation have been expressed by the US House Committee on Financial Services. On 16 November 2021, such committee passed a proposal to prohibit brokers from facilitating the transaction of, or recommending SPAC securities to a person who is not an accredited investor⁹, unless the promote or similar economic compensation of the SPAC is 5% or less or the SPAC provides the required disclosures¹⁰. The US accredited investor regime is similar to the Professional Investor regime in Hong Kong, although different tests and financial thresholds are used.
19. In view of the above and taking into account the majority support from respondents, we will limit the subscription and trading of SPAC securities to Professional Investors only. We have also made a minor clarification amendment to define Professional Investors who are not Institutional Professional Investors as “Non-Institutional Professional Investors” (see Table 4 of “Definitions” section and Rule 18B.01).

II. Arrangements to Ensure Marketing to and Trading by Professional Investors only

20. The Exchange proposed that SPACs must make adequate arrangements to ensure that their securities would not be marketed to or traded by the public in Hong Kong (without prohibiting marketing to or trading by Professional Investors).¹¹

⁹ Pursuant to [Section 2\(a\) of the US Securities Act of 1933 \(15 U.S.C. 77b\)](#) and [Regulation D - Rules Governing the Limited Offer and Sale of Securities Without Registration Under the US Securities Act of 1933 \(17 CFR § 230.501\)](#), an accredited investor includes (i) institutional investors such as banks, savings and loan associations, registered broker dealers, insurance companies registered investment companies and licensed small business investment companies; (ii) non-institutional investors such as an individual whose income exceeds US\$200,000 in each of the two most recent years (or US\$300,000 in joint income with a person’s spouse) and who reasonably expects to reach the same income level in the current year; an individual whose net worth exceeds US\$1 million, excluding value of primary residence; and certain entities with over US\$5 billion in assets; a licensed person holding certain professional certifications, designations or credentials, and a knowledgeable employee defined under [Rule 3c-5\(a\)\(4\)](#) of the Investment Company Act of 1940.

¹⁰ [H.R. 5913](#), US House Committee on Financial Services.

¹¹ Paragraphs 150, 151 and 159 of the Consultation Paper.

21. The Exchange also proposed to implement requirements on SPAC Exchange Participants in respect of the process for their approval, monitoring and Exchange enforcement actions.¹²

Responses Received

22. Of the respondents who supported the proposal on investor suitability (see paragraph 13), 92% of respondents who commented (45 respondents) supported the Exchange's proposals on arrangements to ensure marketing to and trading by Professional Investors only¹³, while 8% of those who commented (four respondents) did not support them.

Comments

23. Those who supported the proposal considered the proposed arrangements adequate to ensure the marketing or trading of SPAC securities to Professional Investors only.
24. A number of opposing respondents commented that the proposed board lot size of HK\$1 million was too onerous and would deter Individual Professional Investors from investing in SPACs, hinder investors' ability to diversify their investment portfolio and dampen the liquidity of trading in SPAC securities.
25. Two respondents sought guidance on the standard of due diligence and/or "know your client" procedures expected of financial intermediaries to preclude retail participation and ascertain the status of Professional Investors. In particular, they commented that it would be burdensome to conduct these exercises for multiple daily trades and said that the requirements should not be more onerous than those already in place for the international placing tranche of a traditional IPO.

Exchange Conclusion

26. Taking into account the requisite level of financial resources and investment experience and expertise in order to qualify as Professional Investors, we believe the proposed board lot size would not impose undue hardship, but rather act as an effective safeguard to preclude retail participation. Also, the open market requirements (set out in paragraphs 47 to 49) should help to maintain the liquidity of SPAC securities.
27. As stated in the Consultation Paper, the due diligence and/or 'know your clients' procedures required is comparable to the existing restricted marketing requirements¹⁴ for the listing of investment companies under Chapter 21 of the Listing Rules. For the assessment of the status of Professional Investors, financial intermediaries are expected to comply with applicable requirements under the Professional Investor regime regulated by the SFC¹⁵.

¹² Paragraphs 152 to 158 of the Consultation Paper.

¹³ Question 2 of the Consultation Paper.

¹⁴ See Rules 21.14(3) and 21.14(5) and Guidance Letter [HKEX-GL17-10](#) "Guidance for Chapter 21 companies", paragraph 4.

¹⁵ See Section 8 of the SFO PI Rules; and also the [Consultation Conclusions on the Evidential Requirements under the Securities & Futures \(Professional Investor\) Rules](#), February 2011, SFC. It is concluded that the assessment of a professional investor will adopt a principles-based approach whereby firms may use methods that are appropriate in the circumstances to satisfy themselves that an investor meets the relevant assets or portfolio threshold.

28. As stated in the Consultation Paper, the Exchange will establish an approval process for SPAC Exchange Participants. As part of the approval process, in addition to the requirements stated in the Consultation Paper, the Exchange will also implement other requirements to ascertain an Exchange Participant's ability to ensure compliance with applicable requirements under the Professional Investor regime, and to confirm their procedures to ensure investor suitability, including:
- (a) checking an Exchange Participant's procedures to classify different categories of investors (i.e. whether an investor is a Professional Investor or not; and if so, whether it is an Institutional Professional Investor, Corporate Professional Investor or Individual Professional Investor);
 - (b) its ability to stop non-eligible clients from placing orders on SPAC Shares and SPAC Warrants; and
 - (c) its ability to assess product suitability.
29. The Exchange will assign a special stock short name marker to the listed securities of SPACs. The stock short names of SPAC Shares will end with the marker "Z" and the stock short names of SPAC Warrants will end with "Z Y Y M M" or "Z Y Y" (with YY representing the expiry year and MM representing the expiry month of the SPAC Warrants). This information will also be displayed on the HKEX website ([link](#)).
30. In view of the majority support from respondents, we will adopt the proposals to ensure marketing to and trading by Professional Investors only.

III. Trading Arrangements

31. The Exchange sought market feedback on whether to allow SPAC Shares and SPAC Warrants to trade separately from the date of initial listing to a De-SPAC Transaction.
32. The Exchange proposed two options to mitigate the risks of volatility in trading SPAC Shares and SPAC Warrants and a disorderly market, namely:
- (a) Option 1: manual trades only permitted for SPAC Warrants; and
 - (b) Option 2: both manual trades and automatching of orders permitted for SPAC securities with automatching subject to the Exchange's VCM and different price deviation percentage parameters set for SPAC Shares and SPAC Warrants.¹⁶

Responses Received

33. 92% of respondents who commented (66 respondents) supported the Exchange's proposal to allow separate trading of SPAC Shares and SPAC Warrants from the date of initial listing¹⁷, while 8% of those who commented (six respondents) did not support it.

¹⁶ Paragraphs 170 to 174 of the Consultation Paper.

¹⁷ Question 3 of the Consultation Paper.

34. Of the respondents endorsing the proposal, 12% (eight respondents) supported Option 1 while 58% (38 respondents) supported Option 2 as the method that should be used to mitigate the risk of volatility¹⁸. 9% of these respondents (six respondents) suggested an alternative option (e.g. that no volatility control should be imposed), and 21% (14 respondents) did not express an opinion on the method that should be used.

Comments

35. Respondents in support thought the separation of trading of SPAC Shares and SPAC Warrants to be in line with market practice in the US. They also stated that this would allow investors to choose which SPAC securities they wished to purchase depending on their level of risk tolerance.

Use of VCM

36. Respondents in support of Option 2 commented that VCM was a proven mechanism to mitigate price volatility and so could be applied for this purpose to the trading of SPAC securities. They believed that the ability to automatch orders was essential in a market-driven price discovery process, and to avoid a disorderly market, while Option 1 would reduce trading efficiency and increase costs.
37. Three respondents considered volatility controls unnecessary. They were of the view that the dynamics of trading shares and warrants in tandem would help maintain stable pricing between the two types of securities, and volatility in trading would be relatively low.

Stabilisation

38. Some respondents stated that, in the US, it is market practice for SPACs to issue stapled units at initial listing and enable the separation of those units into SPAC Shares and SPAC Warrants from the 52nd day of trading onwards at investors' discretion. They stated that the purpose of this practice is to allow the stabilisation of the price of SPAC units by a bookrunner to occur following the SPAC's initial listing.
39. These respondents noted that the Exchange's proposal would prevent stabilisation as this could not be done for both SPAC Shares and SPAC Warrants simultaneously. Without stabilisation, these respondents believed that SPACs may experience a sharp decline in their SPAC Warrant price soon after the SPAC's initial listing due to SPAC Investors' desire to sell their warrants to realise their value and retain a long position in SPAC Shares.

Exchange Conclusions

40. In view of the overwhelming support, we will implement our proposal to allow SPAC Shares and SPAC Warrants to trade separately from the date of initial listing to a De-SPAC Transaction.

¹⁸ Question 4 of the Consultation Paper.

Stabilisation

41. Subsidiary legislation of the SFO (Securities and Futures (Price Stabilizing) Rules) limits stabilisation to public offers which satisfy certain requirements¹⁹. As new shares in a SPAC initial listing will be marketed to and traded by Professional Investors only, stabilisation of SPAC securities may not be possible under this legislation.
42. Also, we do not believe there is a strong argument to support the need for stabilisation of SPAC securities. As SPAC shares can be redeemed for HK\$10 each in the future, the price of SPAC shares should not fall significantly below HK\$10 as purchasing them below this price provides a price arbitrage opportunity for investors.
43. We are also not convinced that IPO investors will choose to sell their SPAC Warrants after a SPAC's initial listing in sufficient numbers to cause a sharp downward pressure on SPAC Warrant prices. It is our understanding that in the US, it is more usual for IPO investors to sell their SPAC Shares at the IPO price of US\$10 (or above), after listing, and retain their SPAC Warrants to gain a cost free upside stake in a potential Successor Company.

Use of VCM

44. In view of the majority support of Option 2, we will adopt Option 2 to mitigate the risk of volatility in SPAC securities, which allows both the automatching of orders with VCM, and manual trades, to be conducted for SPAC securities.
45. To address the possibility of high volatility in the trading of SPAC Shares and SPAC Warrants during their early days of listing, the VCM for SPAC Shares and SPAC Warrants²⁰ will be introduced with slight variation to the price deviation percentages, such that the initial VCM triggers will be as follows:
 - (a) during the first month of listing, the VCM triggering thresholds will be half those proposed - a price deviation percentage of $\pm 15\%$ (instead of $\pm 30\%$) for SPAC Shares, and a price deviation percentage of $\pm 25\%$ (instead of $\pm 50\%$) for SPAC Warrants;
 - (b) after the first month of listing, the VCM triggering thresholds will be as proposed in the Consultation Paper - a price deviation percentage of $\pm 30\%$ for SPAC Shares, and a price deviation percentage of $\pm 50\%$ for SPAC Warrants;
46. The Exchange will review the above VCM triggering thresholds at an appropriate time after launch of the SPAC regime to determine their effectiveness. As our experience in the trading of SPAC Shares and SPAC Warrants develops, we may re-calibrate and amend such thresholds from time to time.

¹⁹ Section 3 of the Securities and Futures (Price Stabilizing) Rules (Cap.571W).

²⁰ See paragraph 174 of the Consultation Paper

IV. Open Market Requirements

47. To ensure an open and liquid market in SPAC securities, the Exchange proposed that:
- (a) each of SPAC Shares and SPAC Warrants be distributed to a minimum of 75 Professional Investors (of either type²¹) of which 30 must be Institutional Professional Investors;
 - (b) at least 75% of a SPAC's securities be distributed to Institutional Professional Investors;
48. We also proposed that:
- (a) not more than 50% of securities in public hands at the time of a SPAC's listing can be beneficially owned by the three largest public shareholders; and
 - (b) at least 25% of each of the SPAC's total number of issued shares and issued warrants be at all times held by the public.
49. We proposed that SPACs be exempt from existing Rule requirements regarding public interest²², transferability²³ and allocation to the public²⁴, given that marketing and trading of their securities will be limited to Professional Investors only.²⁵

Responses Received

50. 49% and 44% of respondents who commented (35 and 29 respondents) supported the proposals in paragraph 47(a)²⁶ and (b)²⁷, respectively, while 51% and 56% of those who commented (36 and 37 respondents) did not support the respective proposals.
51. 90% and 87% of respondents who commented (60 and 59 respondents) supported the proposals in paragraph 48(a)²⁸ and (b)²⁹, respectively, while 10% and 13% of those who commented (seven and nine respondents) did not support the respective proposals.
52. 91% of respondents who commented (61 respondents) supported the Exchange's proposal in paragraph 49³⁰, while 9% of those who commented (six respondents) did not support it.

Comments

53. Supportive respondents believed that our shareholder distribution proposals would provide sufficient liquidity to ensure an open market in SPAC securities and allow a diverse spectrum of sizeable Professional Investors to participate.

²¹ Institutional Professional Investors or Non-Institutional Professional Investors.

²² Rule 8.07.

²³ Rule 8.13 (save for the transferability among Professional Investors).

²⁴ Rule 8.23.

²⁵ Paragraph 184 of the Consultation Paper.

²⁶ Question 5 of the Consultation Paper.

²⁷ Question 6 of the Consultation Paper.

²⁸ Question 7 of the Consultation Paper.

²⁹ Question 8 of the Consultation Paper.

³⁰ Question 10 of the Consultation Paper.

54. Opposing respondents questioned the basis of the proposed thresholds which, they said, appeared arbitrary. They commented that such requirements (especially the thresholds for Institutional Professional Investors) would be difficult to meet. They also thought the requirements would make a Hong Kong SPAC regime less competitive and less attractive to high quality De-SPAC Targets and experienced SPAC Promoters.
55. Opposing respondents made the following comments on the proposed minimum threshold of 75 Professional Investors (30 of which must be Institutional Professional Investors):
- (a) the proposed requirement was not in line with the market practice as recent SPAC offerings in the US have often been taken up by fewer than 75 investors. They also estimated that currently there are only approximately 25 to 50 active institutional investors in Asia who invest in SPACs (with, on average, approximately 10 Asian institutional investors per deal). Also, as the capital of these investors is already committed to SPACs in other markets, it would be difficult to secure the participation of a large number of Institutional Professional Investors in Hong Kong listed SPACs. Consequently, the minimum Professional Investors requirement could lead to the failure of SPAC initial listings in Hong Kong due to a lack of Professional Investor availability;
 - (b) it disadvantaged SPAC listings relative to listings via a traditional IPO which have no minimum Institutional Professional Investor participation requirement;
 - (c) some respondents thought that setting the shareholder distribution threshold at a minimum of 75 Professional Investors may make the distribution too diverse to be attractive to high quality long term investors. The investment mandates of such investors usually require them to meet a minimum investment threshold and so a small allocation to each Professional Investor in a SPAC's initial listing may mean they would be unable to participate;
 - (d) there was no correlation between the number of investors in SPACs and subsequent price volatility in their securities; and
 - (e) the proposal would create an additional compliance burden for underwriters in having to distinguish between Institutional Professional Investors and Non-Institutional Professional Investors.
56. With regard to the requirement for distribution of 75% SPAC securities to Institutional Professional Investors, opposing respondents commented that this proposal:
- (a) would unfairly restrict the involvement of Non-Institutional Professional Investors. They believed that that these investors were capable of being equally as sophisticated as Institutional Professional Investors in terms of investment experience and capabilities and so disagreed with drawing a distinction between Non-Institutional Professional Investors and Institutional Professional Investors;
 - (b) would lead to high concentration in SPAC shareholding, adversely affecting liquidity and hence price volatility due to the limited group of Institutional Professional Investors, which would work against the original intention of the proposal to ensure an open market; and
 - (c) was uncompetitive as it was out of line with the current US market practice.

In light of the above, these respondents suggested removing or lowering the proposed requirement.

57. Regarding the requirement that not more than 50% of the securities in public hands can be held by the three largest public shareholders, two respondents commented that this would discourage investments by large and reputable institutional shareholders who were important to ensuring the most value creating De-SPAC Transactions occur. They suggested imposing an absolute cap on the shareholding concentration, over which the largest shareholders would be subject to a lock-up.
58. On the proposal to require 25% of SPAC securities to be held by the public at all times, two respondents did not consider it necessary in the absence of a sufficient public interest requirement prior to the De-SPAC Transaction.

Exchange Conclusions

59. The distribution threshold for a traditional IPO to the public is 300 shareholders. The minimum distribution thresholds we proposed for SPACs reflected the need to restrict the marketing and trading of SPACs to Professional Investors and is the minimum we believed is necessary to ensure:
 - (a) SPACs attract sufficient interest from institutional investors; and
 - (b) sufficient post-IPO liquidity in SPAC securities to form an open market.
60. As noted by one respondent, the reduced interest for US SPAC offerings may be due to the current saturation of the US SPAC market, which would not be the case in Hong Kong. We also expect that, over time, Hong Kong listed SPACs would attract Asian investors that do not currently participate in US SPAC listings.
61. As stated in our Consultation Paper, we aim to list SPACs that have experienced and reputable SPAC Promoters that seek good quality De-SPAC Targets. Therefore, we believe that, this should, in turn, attract sizeable commitments from a number of Professional Investors (of either type³¹) that could meet the overall minimum distribution threshold of 75 Professional Investors.
62. Our proposal is also comparable to the requirements for a traditional IPO as we impose a minimum 100 placees requirement for the placing tranche of an IPO³², which is typically filled by Professional Investors.
63. However, having taken into consideration feedback from the majority of respondents, we acknowledge that the minimum requirement for 30 Institutional Professional Investors at a SPAC's initial listing may not be commercially viable for some SPACs. We have therefore decided to lower the threshold to 20 Institutional Professional Investors. We believe that this lower threshold will still ensure substantial institutional participation in Hong Kong SPACs.

³¹ Institutional Professional Investors or Non-Institutional Professional Investors.

³² Paragraph 4 of Appendix 6 of the Listing Rules.

64. The requirement that at least 75% of the SPAC securities be distributed to Institutional Professional Investors remains unchanged. A SPAC will also be required to distribute to a minimum of 75 Professional Investors overall. We have amended the Listing Rules accordingly (see Rule 18B.05 in Appendix IV).
65. In respect of the three largest shareholder requirement and the 25% public float requirement³³, these longstanding requirements help to avoid concentration of shareholding within a small group of shareholders and their core connected persons³⁴, which may result in low liquidity and higher price volatility in the trading of SPAC securities. We will therefore adopt the proposals in relation to the three largest shareholders and 25% public float requirements.

V. SPAC Share Issue Price

66. The Exchange proposed that the issue price of SPAC Shares must be HK\$10 or above.³⁵

Responses Received

67. 88% of respondents who commented (60 respondents) supported this proposal³⁶, while 12% of those who commented (eight respondents) did not support it.

Exchange Conclusion

68. In view of the majority support from respondents, we will adopt the proposal.

VI. SPAC Fund Raising Size

69. The Exchange proposed that funds expected to be raised by a SPAC from its initial offering must be at least HK\$1 billion.³⁷

Responses Received

70. 52% of respondents who commented (38 respondents) supported this proposal³⁸, while 48% of those who commented (35 respondents) did not support it.

Comments

71. Respondents in support of the proposal considered the HK\$1 billion fund raising size in line with the requirements of benchmark jurisdictions and sufficient to ensure high quality Successor Companies are listed. One supporting respondent thought it was reasonable given the average SPAC size in the US was US\$300 million (HK\$2.3 billion).

³³See Rule 8.08(3) and Rule 8.08(1).

³⁴ See Rule 1.01. See also Rule 18B.01 for the definition of a “core connected person” with respect to a SPAC.

³⁵ Paragraph 188 of the Consultation Paper.

³⁶ Question 11 of the Consultation Paper.

³⁷ Paragraph 196 of the Consultation Paper.

³⁸ Question 12 of the Consultation Paper.

72. Some opposing respondents thought HK\$1 billion excessive as the money raised would be two times the value of the minimum market capitalisation required for a Successor Company to list on the Main Board (HK\$500 million). They suggested the requirement should match that lower threshold, to help ensure that the SPAC regime is a viable alternative listing route to traditional IPOs.
73. Other opposing respondents believed that SPACs looking for small De-SPAC targets in innovative or emerging sectors would be dissuaded from listing if they were required to meet the HK\$1 billion threshold and these companies may choose to list via a traditional IPO instead, reducing the attractiveness of the SPAC regime to SPAC Promoters and SPAC Investors. They also stated that this high entry barrier would make the SPAC regime unappealing to De-SPAC Targets in Greater China and South East Asia, as a majority of such De-SPAC Targets that listed in US through De-SPAC Transactions did not meet this threshold.

Exchange Conclusions

74. As we stated in the Consultation Paper, we have deliberately set out to attract SPACs that have experienced and reputable SPAC Promoters that seek good quality De-SPAC Targets. We believe that a minimum HK\$1 billion fund raising size would help ensure that a SPAC is capable of generating sufficient interest among Professional Investors. Unlike traditional IPOs, a high degree of reliance is placed on a SPAC Promoter to provide a return for investors.
75. We note that the minimum fund raising size required under the UK SPAC regime is £100 million³⁹ (HK\$1.1 billion). While the US and Singapore SPAC regimes do not have a minimum fund raising requirement, the US requires SPACs to have a minimum market capitalisation ranging from US\$50 million to US\$100 million (HK\$388 million to HK\$776 million) for a listing on NASDAQ or NYSE, depending upon their choice of market segment;⁴⁰ and Singapore requires SPACs to have a minimum market capitalisation of S\$150 million (HK\$869 million)⁴¹. The proposed HK\$1 billion threshold is therefore comparable to the requirements of these jurisdictions.
76. In view of the above and taking into account feedback from the respondents, we will adopt the proposal.

³⁹ UK Listing Rule 5.6.18AG(1).

⁴⁰ SPACs are required to have a minimum market capitalisation of US\$75 million (HK\$583 million) and US\$50 million (HK\$388 million) for a listing on NASDAQ Global Market and NASDAQ Capital Market, respectively; and US\$100 million (HK\$776 million) and US\$50 million (HK\$388 million) for a listing on NYSE and NYSE American respectively. ([NASDAQ Rule 5405\(b\)\(3\)\(A\)](#) and [Rule 5505\(b\)\(2\)\(A\)](#); [NYSE Listed Company Manual Section 102.06](#); and [NYSE American Company Guide Section 101\(c\)](#)).

⁴¹ [SGX Mainboard Listing Rule 210\(11\)\(b\)](#).

VII. Warrants

77. The Exchange proposed to apply existing Rule requirements relating to warrants to SPAC Warrants and Promoter Warrants with minor modifications in respect of the Exchange's approval, expiry of the exercise period, disclosure of material terms, and alteration of terms.⁴²
78. We proposed that Promoter Warrants and SPAC Warrants be exercisable only after the completion of a De-SPAC Transaction.⁴³
79. We also proposed to prohibit SPACs from issuing Promoter Warrants at less than fair value or that contain more favourable terms than that of SPAC Warrants.⁴⁴

Responses Received

80. 94% of respondents who commented (64 respondents) supported the proposal referred to in paragraph 77 to apply existing Rule requirements with modification⁴⁵, while 6% of those who commented (four respondents) did not support it.
81. 96% of respondents who commented (64 respondents) supported the proposal referred to in paragraph 78 regarding the exercise period of SPAC Warrants⁴⁶, while 4% of those who commented (three respondents) did not support it.
82. 67% of respondents who commented (45 respondents) supported the proposal referred to in paragraph 79 to prohibit the issue of Promoter Warrants at less than fair value or that contain more favourable terms than that of SPAC Warrants⁴⁷, while 33% of those who commented (22 respondents) did not support it.

Comments

Terms of Promoter Warrants

83. Respondents opposing the proposal (see paragraph 79) commented that market participants should have the flexibility to decide the terms of Promoter Warrants (including their price) and that we should allow those Promoter Warrants to be issued on more favourable terms, as these are commercial matters. They believed that Professional Investors have the knowledge and experience to evaluate these terms before deciding whether or not to invest in a SPAC.
84. Also, a number of these respondents stated that SPAC Promoters should be rewarded through warrants for taking the risk of investing their own capital in a SPAC, otherwise they would be dis-incentivised to participate in the SPAC regime.

⁴² Paragraph 202 of the Consultation Paper.

⁴³ Paragraph 203 of the Consultation Paper.

⁴⁴ Paragraphs 204 and 205 of the Consultation Paper.

⁴⁵ Question 13 of the Consultation Paper.

⁴⁶ Question 14 of the Consultation Paper.

⁴⁷ Question 15 of the Consultation Paper.

85. Some respondents thought that Promoter Warrants should be exercisable on a cashless basis⁴⁸. They were of the view that as this method of exercise results in the SPAC Promoter paying the full cost of the purchase price (from the value of the shares purchased rather than in cash), this should not be viewed as a materially more favourable term.

Clarifications

86. Some respondents sought clarifications on how the fair value of Promoter Warrants will be determined.
87. A supporting respondent sought clarification on whether SPAC Promoters would be required to abstain from voting on the shareholder approval for an issue or a grant of SPAC Warrants and/or Promoter Warrants.
88. One respondent sought clarification on the implication of Rule 13.36(7) which stipulates that an issuer may not issue warrants pursuant to a general mandate if warrants are issued for cash consideration. The respondent stated that this appeared to contradict the wording in the draft Rule (which stated that SPAC Directors may issue further warrants under the authority of a general mandate granted under Rule 13.36(2)).
89. Another respondent asked how Chapter 14A of the Rules would apply to the common practice in US markets of SPAC Promoters converting loans they granted to the SPAC for working capital purposes into Promoter Warrants.

Exchange Conclusions

90. As the issue of warrants by a SPAC results in (often substantial) dilution to the shareholdings of investors in the Successor Company (including retail investors), we continue to believe that their issue should be subject to the same Rules that currently apply to warrant issues (with minor modification). So, in view of the majority support from respondents on the proposals referred to in paragraphs 77 and 78, we will adopt the proposal.

Terms of Promoter Warrants

91. At the time of issuance of the Promoter Warrants, a SPAC is a cash shell without any trading or operating history. Accordingly, no metrics are available to calculate a theoretical purchase price for a Promoter Warrant.

⁴⁸ For example, if a SPAC Promoter holds 75 Promoter Warrants (of exercise price HK\$11.50) to purchase 75 ordinary shares in the Successor Company, and Successor Company shares are trading at \$17.25. If the SPAC Promoter chooses to exercise the warrants on a “cashless basis”, the number of shares to be issued will be calculated based on the difference between the trading price and the exercise price. I.e. $75 \times (\$17.25 - \$11.5) / 17.25 = 25$. This means the SPAC Promoter would receive 25 shares without the payment of any additional cash consideration, as opposed to the 75 shares they receive in the case of a “cash-based exercise”.

92. In the US, it is market convention for SPAC Promoters to purchase Promoter Warrants at US\$1.00 or US\$1.50 each, depending on the share to warrant ratio used for the issuance of SPAC Warrants (generally the price is set at US\$1.00 per Promoter Warrant if SPAC Investors receive half a SPAC Warrant per SPAC Share, and US\$1.50 per Promoter Warrant if SPAC Investors receive a third or less of a SPAC Warrant per SPAC Share).
93. Accordingly, we will prohibit the issue of Promoter Warrants at less than 10% of the issue price of SPAC Shares per Promoter Warrant (see Rule 18B.30(1)) to match that convention, rather than imposing a prohibition on them being issued at less than fair value. To ensure that this issue price restriction is not circumvented, we will also prohibit Promoter Warrants that entitle the holder, upon exercise, to receive more than one share in the Successor Company (see Rule 18B.30(2)).
94. To ensure alignment of interests of the SPAC Promoter and other shareholders of a SPAC, we will impose an additional requirement that the minimum exercise price of the SPAC Warrants and Promoter Warrants must be at a price which represents at least 15% premium to the issue price of the SPAC Shares (see Rule 18B.22(1)).
95. We are of the view that the right to exercise Promoter Warrants on a cashless basis (see comment in paragraph 85), provides a material advantage to a SPAC Promoter vis-à-vis other investors, as it enables them to exercise warrants that they may not otherwise have been able to exercise (because they do not have the funds at hand to do so). This is a right that is attractive to all SPAC Investors. Accordingly, a SPAC would be prohibited from providing this right to SPAC Promoters, unless it also provides the same right to shareholders as a whole. We have clarified this in the Rules (see paragraph (b) of the Note to Rule 18B.30(3)).

Clarifications

96. We wish to clarify that, as SPAC Promoters and their respective close associates have a material interest in the issue and/or grant of Promoter Warrants, they must abstain from voting on the relevant resolutions on such an issue. We have amended the Listing Rules to provide this clarification (see Note to Rule 18B.21).
97. We agree with the observation (see paragraph 88) that, unless warrants are issued for non-cash consideration, it would not be possible to issue them under a general mandate. We have therefore deleted the wording referring to the general mandate from Rule 18B.21(2).
98. We recognise it is not uncommon in the US for a SPAC to be granted loans by its SPAC Promoter to provide working capital. So, we have included guidance to clarify the requirements to such loans in the Guidance Letter on SPACs (See Appendix V).
99. Subject to the amendments described above (in paragraphs 93 to 97), taking into account feedback from the respondents, we will adopt the proposals.

(B) SPAC PROMOTERS AND SPAC DIRECTORS

I. SPAC Promoters

Suitability and eligibility of SPAC Promoters

100. We proposed that, at listing and until the completion of a De-SPAC Transaction, the Exchange must be satisfied as to the character, experience and integrity of each SPAC Promoter and that each SPAC Promoter is capable of meeting a standard of competence commensurate with their position. We also proposed that the information a SPAC produces for the purpose of demonstrating a SPAC Promoter's suitability be disclosed in its listing document.⁴⁹
101. In determining the suitability of SPAC Promoters, the Exchange proposed to view their application favourably if they could demonstrate that they have experience:
- (a) managing assets with an average collective value of at least HK\$8 billion over a continuous period of at least three financial years; or
 - (b) holding a senior executive position at an issuer that is or has been a constituent of the Hang Seng Index or an equivalent flagship index.⁵⁰
102. Further, the Exchange proposed to require at least one SPAC Promoter be a firm that holds (a) a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC; and (b) at least 10% of the Promoter Shares.⁵¹

Responses Received

103. 95% of respondents who commented (71 respondents) supported our proposals referred to in paragraph 100 regarding the character, experience and integrity of a SPAC Promoter⁵², while 5% of those who commented (four respondents) did not support it.
104. 95% of respondents who commented (70 respondents) supported the proposal that the Exchange publish guidance on these requirements and that SPACs include the relevant information in its listing document⁵³, while 5% of those who commented (four respondents) did not support it.
105. 72% of respondents who commented (52 respondents) supported the proposal that the Exchange view the applications of SPAC Promoters favourably if they demonstrate the characteristics stated above (in paragraph 103)⁵⁴, while 28% of those who commented (20 respondents) did not support it.

⁴⁹ Paragraphs 213 to 215 and Box 1 of the Consultation Paper.

⁵⁰ Paragraph 216 of the Consultation Paper.

⁵¹ Paragraph 217 of the Consultation Paper.

⁵² Question 16 of the Consultation Paper.

⁵³ Question 17 of the Consultation Paper.

⁵⁴ Question 18 of the Consultation Paper.

106. 69% of respondents who commented (53 respondents) supported our proposed licensing requirements⁵⁵, while 31% of those who commented (24 respondents) did not support it.

Comments

Character, experience and integrity of SPAC Promoter

107. In general, respondents agreed that the character, experience and integrity of SPAC Promoter are the most important factors in the assessment of the investment quality of a SPAC as its future success depends on the ability and insight of the SPAC Promoter to identify a suitable De-SPAC Target and successfully negotiate the completion of a De-SPAC Transaction. Therefore they agreed that a SPAC Promoter should meet certain standards of competence commensurate with its position.
108. However, respondents had different views on the regulatory framework and how the suitability and the competence of a SPAC Promoter should be assessed:
- (a) some respondents believed that it was sufficient to publicly disclose the reasons why SPAC Promoters considered themselves suitable and let the market determine whether to invest in the SPACs based on that disclosure;
 - (b) some respondents considered one or more of the factors on which we proposed to base our suitability assessment were not relevant to or indicative of the potential success of a SPAC. In particular, some commented that these factors did not fully take into account the SPAC Promoters' deal sourcing network and know-how. Some also stated that these factors appeared to be arbitrary and would mean only "bulge bracket firms"⁵⁶ would qualify; and
 - (c) some respondents sought clarification as to the overall vetting approach for the suitability assessment, for example, whether certain factors would be given more weight, and whether the Exchange would treat SPAC Promoters differently based on which criteria they met. One respondent believed that the Exchange should adopt a "holistic approach" to assess the suitability and competence of a SPAC Promoter rather than measuring them only against the proposed criteria.
109. A respondent suggested mandating disclosure in the Listing Document of the number of SPACs that a SPAC Promoter is involved in at the time of a new SPAC listing, any potential conflicts of interest arising from it doing so, and how such conflicts would be handled.
110. Two respondents asked us to clarify whether a "flagship index" included all global indices.
- #### SFC Licensing requirement
111. A number of respondents opposed the proposal that at least one SPAC Promoter be an SFC licenced firm:

⁵⁵ Question 19 of the Consultation Paper.

⁵⁶ Bulge-bracket firms normally refer to the largest global investment banks whose clients are usually larger corporations, institutional investors and governments.

- (a) some respondents believed the requirement would exclude experienced and capable overseas SPAC Promoters from listing SPACs in Hong Kong and disincentivise high quality corporates / individuals, private equity funds and institutions without SFC licenses from becoming SPAC Promoters in Hong Kong;
 - (b) some believed that if such licensing requirement is imposed, unlicensed SPAC Promoters would partner with a local entity holding the requisite SFC license to fulfil the requirement. If that SFC licensed entity had no SPAC experience this would not have the desired effect of ensuring the quality of SPAC Promoters;
 - (c) some thought it should be possible to waive the SFC licensing requirement for reputable non-SFC licensed overseas SPAC Promoters who have extensive SPAC-related investment management experience and/or who may be authorised and regulated by overseas competent authorities to advise on investments; or view favourably, instead of mandatorily require, that a SPAC Promoter to be a SFC licensed corporation; and
 - (d) some said other safeguards proposed in the Consultation Paper (including the suitability assessment described above and the appointment of an IPO Sponsor to conduct due diligence for De-SPAC Target) were adequate to ensure high quality De-SPAC Targets are sought. They further highlighted that there was no such licensing requirement in the US, UK and Singapore SPAC regimes.
112. Regarding the requirement for the SFC licensed SPAC Promoter to hold at least 10% of Promoter Shares, some respondents considered it unnecessary or too onerous, as the requirement would make the SPAC regime in Hong Kong less attractive versus overseas regimes, such as the US, where SPAC Promoters have the flexibility to determine whether to hold Promoter Shares or not, and the allocation of Promoter Shares. They said that, in some cases, SPAC Promoters decide to only possess voting power, rather than equity, to minimise the dilution effect resulting from the Promoter Shares so as to facilitate the negotiation of the terms of a De-SPAC Transaction.
113. Some respondents suggested that there should be flexibility regarding the structure of the SPAC Promoter to take into account ownership structures prevalent in the market. They suggested, for example, that a SPAC Promoter structured as a fund managed by a SFC licensed general partner, or a SPAC Promoter controlled by an SFC licensed individual should fulfil the requirement.

Exchange Conclusions

Character, experience and integrity of a SPAC Promoter

114. It is the Exchange's intention to adopt a "holistic approach" in determining the suitability and/or eligibility of a SPAC Promoter. We will conduct the suitability assessment taking into account the non-exhaustive factors and considerations relevant to SPAC Promoters (including their experience and expertise) and any other relevant information provided by the SPAC, as set out in the Guidance Letter on SPACs (see Appendix V to this paper) as part of that holistic assessment.

115. In view of respondents' feedback, we will publish guidance on: (a) the relevant information to be provided to the Exchange and disclosed in the Listing Document with regards to a SPAC Promoter; (b) how to address potential conflict of interest/competition concerns; (c) our general approach to determining suitability and/or eligibility; and (d) examples of indices that we would consider overseas "flagship indices" (see the Guidance Letter on SPACs that forms Appendix V to this paper).

SFC Licensing Requirement

116. As stated in our Consultation Paper, SPACs differentiate themselves based, primarily, upon the experience and reputation of the SPAC Promoter, on which SPAC Investors rely when deciding to invest in SPACs. We believe that the licensing requirement is an appropriate safeguard to ensure the SPAC Promoters are competent, and to hold them accountable if there is any breach.
117. However, we acknowledge that there may be high quality SPAC Promoters who have substantial overseas SPAC experience and who hold similar overseas accreditation but are not licensed by the SFC.
118. So, we will consider waiving the SFC licensing requirement if the SPAC Promoter has overseas accreditation issued by the relevant regulatory authority that the Exchange considers to be equivalent to a Type 6 and/or Type 9 license issued by the SFC. We will assess this on a case-by-case basis and have set out this potential waiver in guidance (see the Guidance Letter on SPACs that forms Appendix V to this paper), and may amend such guidance with details of overseas accreditation we will view as equivalent as our experience in listing SPACs develops over time.
119. The Exchange will consider a SPAC Promoter that does not hold the requisite SFC license to have met the requirement, if its controlling shareholder (which is a licensed corporation) satisfies the requirement. This is subject to the condition that: (a) the SPAC demonstrates to the Exchange that sufficient safeguards and/or undertakings are put in place to ensure the controlling shareholder's oversight of the SPAC Promoter's responsibilities; and (b) the controlling shareholder gives an undertaking to the Exchange that they will ensure the SPAC Promoter's compliance with applicable Listing Rules (see Guidance Letter on SPACs set out in Appendix V to this paper).
120. SPAC Promoters are reminded that if they conduct activities that fall within the scope of regulated activities, they should consider whether there are any possible licensing or other implications under the SFO.
121. For the avoidance of doubt, this licensing requirement could not be satisfied by an individual who holds a license to carry out Type 6 or Type 9 regulated activities. We will require a SPAC Promoter to be a licensed corporation to meet this requirement.

122. Regarding the request for clarification on how the licensing requirement would apply if the SPAC Promoter is structured as a fund in the form of a limited partnership, we propose to follow the same approach as the principles set out in Part A of SFC's circular to private equity firms seeking to be licensed issued on 7 January 2020⁵⁷. This would mean that the licensing requirement would apply to the general partner of the fund as it assumes ultimate responsibility for its management and control.
123. In view of the above and taking into account feedback from the respondents, we will adopt the proposals (summarised in paragraphs 100 to 102) subject to the amendments described above.

Material change in SPAC Promoters

124. We proposed that, upon a material change in the SPAC Promoter or the suitability and/or eligibility of a SPAC Promoter: (a) this must be approved by a special resolution of shareholders; (b) holders of SPAC Shares must be given the opportunity to elect to redeem their SPAC Shares; and (c) if a SPAC fails to obtain the requisite shareholder approval within one month of the material change, the SPAC must return the funds it raised from its initial offering to its shareholders, liquidate and de-list following suspension of trading.⁵⁸

Responses Received

125. 89% of respondents who commented (66 respondents) supported our proposals regarding a material change in SPAC Promoters⁵⁹, while 11% of those who commented (eight respondents) did not support it.

Comments

126. Opposing respondents thought that our proposals would cause operational disruption and investment uncertainty to require early redemption and delisting of a SPAC due to a material change event which is out of the control of the SPAC (particularly if a SPAC Promoter passes away or has committed a breach of laws, rules or regulations or is involved in a matter bearing on its integrity and/or competence). They also argued that the redemption right should not be triggered, in certain circumstances, if a SPAC Promoter does not control more than 50% of the Promoter Shares and leaves the SPAC as a result of an event such as a breach of laws, rules or regulations.
127. Some respondents suggested setting out guidance on what constitutes a material change event.

⁵⁷ <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=20EC2>.

⁵⁸ Paragraphs 218 to 220 of the Consultation Paper.

⁵⁹ Question 20 of the Consultation Paper.

Exchange Conclusions

128. As stated in the Consultation Paper, SPAC Investors primarily assess the experience and reputation of the SPAC Promoter when making their decision whether to invest in a SPAC; and place reliance primarily upon SPAC Promoters (and the SPAC Directors nominated by and representing them) to identify suitable acquisition targets to complete a De-SPAC Transaction. In light of their critical role, we believe that SPAC Investors should be given an opportunity to decide whether to continue to invest in the SPAC following a material change event.
129. In view of the responses and our rationale for the proposal as explained above, we will adopt the proposals with an amendment to the Rules to better align them with our intention that they should be triggered only upon a material change to the key SPAC Promoters. The Rules will state that a material change event will only be triggered if there is a material change in (a) the SPAC Promoter who controls 50% or more of the Promoter Shares or, where no single SPAC Promoter controls 50% or more of the Promoter Shares, the single largest SPAC Promoter; or (b) the SPAC Promoter holding the requisite SFC license.
130. In addition, given the importance of the SPAC Directors holding the requisite SFC licenses (see paragraph 147 and Rule 18B.13), a material change event will also be triggered if there is a change to such SPAC Directors (e.g. the suspension or revocation of such SPAC Director's license issued by the SFC and/or resignation of such SPAC Director), unless a replacement director is appointed within six months of the event to ensure compliance with the relevant requirement.
131. We have also amended the Rules⁶⁰ to clarify that a SPAC's shareholders must vote on the continuation of the SPAC following the material change (not the change itself).
132. In addition, we will also require the continuation of the SPAC following such a material change be subject to Exchange's approval (in addition to shareholders' approval). This is consistent with our proposal that on an ongoing basis for the lifetime of the SPAC, the Exchange must be satisfied as to the character, experience and integrity of a SPAC Promoter and that each is capable of meeting a standard of competence commensurate with their position⁶¹.
133. If a SPAC fails to obtain the requisite approvals (both shareholders' approval and the Exchange's approval) within one month of the material change, the SPAC must return the funds it raised from its initial offering to its shareholders and de-list following suspension of trading.
134. We have also clarified in the Rules that the Exchange retains discretion to determine whether a circumstance constitutes a material change event. We encourage SPACs to consult with the Exchange at the earliest opportunity if they have any queries on whether a particular circumstance constitutes such an event, which the Exchange will assess on a case-by-case basis.

⁶⁰ Rule 18B.32.

⁶¹ Rule 18B.10.

135. In view of the above, we have adopted our proposals with these amendments (see Rules 18B.32, 18B.34 and 18B.73).

II. SPAC Directors

136. The Exchange proposed that the majority of directors on the board of a SPAC must be officers (as defined under the SFO) of the SPAC Promoters (both licensed and non-licensed) representing the respective SPAC Promoters who nominate them.⁶²

Responses Received

137. 77% of respondents who commented (53 respondents) supported this proposal⁶³, while 23% of those who commented (16 respondents) did not support it.

Comments

138. Some respondents sought clarification as to the meaning of an “officer” under the SFO:
- (a) two respondents asked if the term would cover persons not holding “C-suite” positions (e.g. chief executive officer, chief financial officer) as there are limited number of people holding such senior executive position at a SPAC Promoter; and
 - (b) two respondents asked if the term referred to an individual who is approved by the SFC under the SFO as a “Responsible Officer” of a licensed corporation and whether such responsible officer must have employment relationship with the SPAC Promoter.
139. Some respondents asked for clarifications as to:
- (a) whether SPACs should comply with Chapter 3 of the Listing Rules (including requirements for appointing independent non-executive directors and establishing board committees); and
 - (b) where there is more than one SPAC Promoter, whether each SPAC Promoter must nominate one representative director or a number of directors that correspond with the percentage of its relevant shareholding, or whether it is permissible for one or more of those SPAC Promoters to have no representative directors on the board.
140. One respondent asked whether the requirement for a majority of the SPAC board to be “officers” of the SPAC Promoter would mean it would not be possible for a SPAC to follow US practice and appoint a majority of INEDs to its board. Further, some respondents believed that a majority of INEDs should be required of all SPACs as they play an integral role in SPACs that they can leverage their experience to provide unbiased views on De-SPAC Transactions and reflect independent shareholders’ interests.
141. Two respondents asked if an individual SPAC Promoter can act as a director on the SPAC’s board, or he should appoint another ‘officer’ in order to satisfy this requirement.

⁶² Paragraph 221 of the Consultation Paper.

⁶³ Question 21 of the Consultation Paper.

Exchange Conclusions

142. An “officer” as defined by the SFO⁶⁴ includes a director, manager or secretary of, or any other person involved in the management of the corporation. According to a guidance issued by the SFC⁶⁵ for the purpose of its disclosure regime of Inside Information:
- (a) a “manager” normally refers to a person who, under the immediate authority of the board, is charged with management responsibility affecting the whole of the corporation or a substantial part of the corporation; and
 - (b) a “secretary” means a company secretary which has the meaning ascribed to it under the Companies Ordinance.
143. For the purpose of the board representation requirement, we will adopt this meaning and interpretation of “officer” above. Consequently, we believe that the definition of an “officer” would be broad enough to encompass non-“C-suite” positions and is not limited to a “Responsible Officer” of a licensed corporation, so long as such officer is involved in the management of and represents the SPAC Promoter who nominated him. We would expect such an officer would have an employment relationship with the SPAC Promoter. For the avoidance of doubt, such meaning will only apply in the context of SPACs under the Listing Rules (unless otherwise specified).
144. In view of the unintended consequences of requiring the majority of the board of a SPAC be composed of representatives of the SPAC Promoter(s) highlighted by some respondents (see paragraph 140), we will remove this requirement.
145. However, we believe it is still important to ensure that the directors representing the SPAC Promoter (whether or not SFC-licensed) to be “officers” of the SPAC Promoter. Where a SPAC Promoter is an individual, instead of nominating another “officer” as a representative, he or she must be a director of the SPAC themselves to satisfy this requirement.
146. The above requirements ensure the SPAC Promoter’s directors are senior management of the relevant SPAC Promoter, and have fiduciary duties of skill, care and diligence to SPAC Investors and the SPAC as a whole.
147. To help ensure the good conduct of a SPAC board and the SFC’s regulatory reach over that conduct, we will instead require that a SPAC board include at least two Type 6 or Type 9 SFC-licensed individuals (one of whom must be a director representing the SFC-licensed SPAC Promoter).

⁶⁴ Part 1 of Schedule 1 of the SFO.

⁶⁵ Paragraph 53 of [Guidelines on Disclosure of Inside information](#), June 2012.

148. We will not restrict the role (whether executive or non-executive) served by these directors on the board, subject to compliance with the applicable Listing Rules (including the independence requirements⁶⁶ applicable to a director appointed as an INED).
149. The Exchange will not require SPAC Promoters to appoint representatives to the board of a number that corresponds with their respective shareholdings.
150. Chapter 3 of the Exchange's Listing Rules will apply to SPACs and require them to have at least three INEDs⁶⁷ on their board and that INEDs represent at least one-third of the board⁶⁸. SPACs must also establish board committees (including audit⁶⁹, remuneration⁷⁰ and nomination⁷¹ committees). The Exchange will not object to a SPAC appointing a majority of its directors as INEDs.
151. In view of the above, we have adopted our proposals with these amendments referred to in paragraphs 145 and 147 (see Rules 18B.12 and 18B.13).

⁶⁶ For example, a director who is appointed as an INED must comply with Rules 3.12 and 3.13, and other applicable Rules. This also means that, the director representing the SFC-licensed SPAC Promoter will normally be expected to either be an executive director or a non-executive director but not an INED.

⁶⁷ Rule 3.10(1).

⁶⁸ Rule 3.10A.

⁶⁹ Rules 3.21 to 3.23.

⁷⁰ Rules 3.25 to 3.27.

⁷¹ Pursuant to the [Consultation Conclusions on Review of Corporate Governance Code and Related Listing Rules](#), a new Rule 3.27A requiring the establishment of a nomination committee will take into effect on 1 January 2022.

(C) CONTINUING OBLIGATIONS

I. Funds Held in Escrow

152. The Exchange proposed that all gross proceeds of a SPAC's initial offering must be held:
- (a) in a ring-fenced trust account located in Hong Kong and operated by a qualified trustee/custodian under Chapter 4 of the UT Code; and
 - (b) in the form of cash or cash equivalents such as bank deposits or short-term securities issued by governments with a minimum credit rating of (a) A-1 by S&P; (b) P-1 by Moody's Investors Service; (c) F1 by Fitch Ratings; or (d) an equivalent rating by a credit rating agency acceptable to the Exchange.⁷²
153. It was further proposed that the gross proceeds of a SPAC's initial offering held in escrow (including interest accrued on those funds) must not be released other than for the purposes of (a) distribution to SPAC shareholders in the event of redemption or prior to liquidation and (b) completing a De-SPAC Transaction.⁷³

Responses Received

154. 75% of respondents who commented (56 respondents) supported the proposal regarding the ring-fencing of funds raised⁷⁴, while 25% of those who commented (19 respondents) did not support it.
155. 97% of respondents who commented (71 respondents) supported the proposal regarding the form in which funds raised are kept⁷⁵, while 3% of those who commented (two respondents) did not support it.

Comments

156. In general, respondents considered that, given the inherent risks involved in investing in SPACs, the proposals were reasonable and logical to safeguard the interests of SPAC Investors by ensuring their funds are in safe custody.

Escrow Account

157. Some respondents suggested that the gross proceeds of a SPAC's initial offering be held in escrow through means other than a trust account, as this would be costly given the limited availability of such service providers. Some respondents thought an escrow account opened with and operated by an independent escrow agent (a financial institution licensed and approved by the Hong Kong Monetary Authority) should be sufficient.

⁷² Paragraphs 228 to 230 of the Consultation Paper.

⁷³ Paragraph 231 of the Consultation Paper.

⁷⁴ Questions 22 to 23 of the Consultation Paper.

⁷⁵ Question 24 of the Consultation Paper.

158. Some respondents also suggested that the Exchange should permit up to 10% of the gross proceeds of a SPAC's initial offering to be used to cover upfront expenses of the SPAC that would otherwise be borne solely by SPAC Promoters. They thought that the Exchange's proposal may dis-incentivise SPAC Promoters from listing SPACs in Hong Kong.
159. One respondent suggested that appropriate disclosure should be made in the listing document as regards the identity of the trustee/custodian and/or details of the trust/custodian arrangements.

Form of the Funds held in Escrow

160. Some respondents were concerned that funds held as cash securities would expose SPAC Investors to charges for managing, dealing in and holding such securities. A few respondents asked the Exchange to consider whether further safeguards are necessary to manage (a) the foreign exchange risk in funds held in cash or securities denominated in a foreign currency and (b) the interest rate risk inherent in short-term securities such as bonds.
161. Some respondents also suggested expanding the definition of "cash or cash equivalents" to include "money market funds" as an alternative to bank deposits and government bonds. One respondent suggested allowing funds in escrow to be held as bank deposits at any Domestic Systematically Important Authorized Institutions (D-SIBs) as announced and recognised by the Hong Kong Monetary Authority.

Exchange Conclusions

Escrow Account

162. We would like to clarify that a SPAC would be free to appoint either a trustee or custodian to hold the gross proceeds of a SPAC's initial offering, and that:
- (a) if a trustee is appointed, it should hold the funds in trust and it would be expected to fulfil the duties imposed by the general law of trusts and also discharge its obligations and duties as required under Chapter 4 of the UT Code; and
 - (b) if a custodian is appointed, it should hold the funds in accordance with a custodian agreement reflecting its responsibilities under Chapter 4 of the UT Code.
163. A SPAC would be able to deposit the funds with an escrow agent as long as it met one of the above requirements. The trustee or custodian would not need to be a financial institution licensed and approved by the Hong Kong Monetary Authority.⁷⁶

⁷⁶ The definition of trustee / custodian under the UT Code covers banks licensed by the Hong Kong Monetary Authority and also trust companies and banking institutions incorporated outside Hong Kong which are subject to prudential regulation and supervision on an ongoing basis, or an entity which is authorised to act as a trustee / custodian of a scheme and prudentially regulated and supervised by an overseas supervisory authority acceptable to the SFC.

164. It is the Exchange’s intention to ensure that the SPAC Promoter has capital at risk to align its interests with those of ordinary shareholders. We also note that it is a common practice for SPACs in the US to deposit 100% funds raised in the offering in a ring-fenced account. Consequently, we believe a SPAC should ring-fence 100% of funds raised from its initial offering in an escrow account.
165. In line with SPAC regulatory framework in the US, UK and Singapore, we will not require interests accrued on the initial offering proceeds and proceeds raised from the issue of Promoter Warrants to be ring-fenced. These monies may be released and utilised for purposes other than those specified in paragraph 153, as long as the use is disclosed in the SPAC’s listing document.

Form of the Funds held in Escrow

166. It is the SPAC’s responsibility to ensure that funds are held in a form that allows them to meet the requirement to give full redemption to shareholders. We do not intend to set further requirements on how this is done in the Rules, but have provided text in the Guidance Letter on SPACs (see Appendix V to this paper). We will update our guidance from time to time as we gain experience of operating the SPAC regime.
167. In view of the above and taking into account feedback from the respondents, we will adopt the proposal, with minor modifications to: (a) replace references to “trust account” with “escrow account” to accommodate the use of both trustees and custodians and require disclosure in a listing document with regards to the identity of the trustee/custodian and details of the trust/custodian arrangements (including the circumstances under which the funds in the escrow account may be released); (b) allow the accrued interests or other income earned on monies held in the escrow account to be released (see Rules 18B.09(4), 18B.16, 18B.17, 18B.19, 18B.20, 18B.57 and 18B.74 of Appendix IV).

II. Promoter Shares and Promoter Warrants

168. The Exchange proposed the following restrictions on the issue and transfer of Promoter Shares and Promoter Warrants:
- (a) only a SPAC Promoter would be able to beneficially hold Promoter Shares and Promoter Warrants at listing and thereafter;
 - (b) Promoter Shares and Promoter Warrants must not be eligible for listing; and
 - (c) a SPAC must not certify the transfer of the legal ownership of any Promoter Shares or Promoter Warrants⁷⁷ to a person other than the person to whom they were originally issued.⁷⁸

⁷⁷ Including any transfer of economic interest in those securities or control over the voting rights attached to them (through voting proxies or otherwise).

⁷⁸ Paragraphs 240 to 242 of the Consultation Paper.

169. In addition, the Exchange proposed to prohibit a SPAC Promoter (including its directors and employees), SPAC directors and SPAC employees, and their respective close associates, from dealing in the SPAC securities prior to the completion of a De-SPAC Transaction.⁷⁹

Responses Received

170. 76% of respondents who commented (51 respondents) supported the proposal regarding SPAC Promoters beneficially holding Promoter Shares and Promoter Warrants at listing and thereafter⁸⁰, while 24% of those who commented (16 respondents) did not support it.
171. Of the respondents who supported the proposal, 96% of respondents who commented (48 respondents) supported the proposal on the restriction on issue and transfer of Promoter Shares and Promoter Warrants⁸¹, while 4% of those who commented (two respondents) did not support it.
172. 92% of respondents who commented (65 respondents) supported the proposals regarding the restriction on dealing in SPAC securities⁸², while 8% of those who commented (six respondents) did not support them.

Comments

173. Some respondents suggested that transfers of Promoter Shares and Promoter Warrants should be allowed for the purpose of remunerating SPAC directors (including INEDs) and/or SPAC employees so as to reduce the upfront cash requirements and running costs of the SPAC. Some stated that exemptions should be considered for Promoter Shares and Promoter Warrants to be paid to IPO Sponsor(s) and underwriter(s) as fees of the De-SPAC Transaction.
174. Some respondents urged that the Exchange consider permitting the transfer of Promoter Shares amongst SPAC Promoters under circumstances such as a material change in the SPAC Promoters. A few respondents further suggested giving SPAC Promoters the flexibility to transfer part of their Promoter Shares to investors in a De-SPAC Target in order to secure the required investment to complete the De-SPAC Transaction (especially in challenging market conditions).
175. A few respondents noted that the period “at listing of the SPAC and thereafter” was not clearly defined in the Consultation Paper and asked that the Exchange clarify whether the proposed restrictions on the issue and transfer of Promoter Shares and Promoter Warrants are applicable after the completion of the De-SPAC Transaction.

⁷⁹ Paragraph 243 of the Consultation Paper.

⁸⁰ Question 26 of the Consultation Paper.

⁸¹ Question 27 of the Consultation Paper.

⁸² Question 28 of the Consultation Paper.

Exchange Conclusions

176. Promoter Shares and Promoter Warrants provide economic incentives for a SPAC Promoter to identify a De-SPAC Target and complete a successful De-SPAC Transaction. They are issued to a SPAC Promoter on the basis that it has the knowledge, experience and competence to complete these tasks. Investors make their decision to invest in a SPAC in the knowledge of this arrangement. The Exchange therefore maintains the position that the Promoter Shares and Promoter Warrants must be beneficially owned by the SPAC Promoter and that this beneficial ownership must not be transferred to another person.
177. We are of the view that granting Promoter Shares to INEDs would risk compromising their independence.⁸³ Therefore, we will not amend the Rules to allow this, whether on a deferred basis or not.
178. In exceptional circumstances, the Exchange may waive the requirement, based on the merits of an individual case, to permit the transfer of Promoter Shares or Promoter Warrants between SPAC Promoters of the same SPAC (e.g. the revocation of license of a licensed SPAC Promoter). This is on the condition that the transfer is subject to approval of a resolution on the matter by shareholders at a general meeting. SPAC Promoters and their close associates would be regarded by the Exchange as having a material interest and must abstain from voting on such a resolution.
179. The Exchange would also like to clarify that the restrictions on transfer of Promoter Shares and Promoter Warrants apply for so long as they remain in such form (i.e. before conversion into shares in the Successor Company).
180. In view of the above and taking into account feedback from the respondents, we will adopt the proposals with minor amendments to the Rules to clarify the matter referred to in paragraphs 178 and 179 (See Rule 18B.26 and Note 2 to such rule).

III. Trading Halts and Suspensions

181. The Exchange proposed to apply its existing trading halt and suspension policy to SPACs.⁸⁴

Responses Received

182. 99% of respondents who commented (70 respondents) supported the proposal above⁸⁵, while 1% of those who commented (one respondent) did not support it.

⁸³ Under Rule 3.13(2), an INED can receive shares or interests in securities from the listed issuer as part of their director's fee, but not from core connected persons (which would include SPAC Promoters in the context of SPACs).

⁸⁴ As set out in Rules 6.02 to 6.10A and Guidance Letter [HKEx-GL83-15](#) "Guidance on Trading Halts"; paragraph 248 of the Consultation Paper.

⁸⁵ Question 29 of the Consultation Paper.

Comments

183. One respondent stated that the longevity of a SPAC turns on its ability to find a suitable De-SPAC Target to merge with or acquire. This constant hunt for a De-SPAC Target arguably heightens the opportunity for speculation in the price of the SPAC Shares. Given the likely price volatility of SPAC Shares, particularly close to the De-SPAC Announcement Deadline, SPACs should not be granted open-ended trading halts but rather be required to provide information within a specified timeframe.

Exchange Conclusions

184. We recognise the risk of speculation and the potentially higher price volatility of SPAC securities pending a De-SPAC Announcement. However, we believe our existing policy on trading halts (which already minimises their length) should address the concern.
185. In view of the above and taking into account feedback from the respondents, we will adopt the proposal.

(D) DE-SPAC TRANSACTION REQUIREMENTS

I. Application of New Listing Requirements

186. The Exchange proposed to consider a De-SPAC Transaction in the same way as an RTO (i.e. a deemed new listing), and require that a Successor Company meet all new listing requirements (including minimum market capitalisation requirements⁸⁶, financial eligibility tests⁸⁷, IPO Sponsor appointment requirements, due diligence requirements and documentary requirements).⁸⁸

Responses Received

187. 67% of respondents who commented (52 respondents) supported this proposal⁸⁹, while 33% of those who commented (26 respondents) did not support it.

Comments

188. The majority of respondents supported the Exchange's proposal to apply new listing requirements to a De-SPAC Transaction to address the risk that SPACs could be used to circumvent the quantitative and qualitative criteria for a new listing.
189. Respondents that opposed this proposal cited the following reasons:
- (a) in other markets (particularly the US), a De-SPAC Transaction is a route for early stage companies from emerging and innovative sectors to list and raise capital. They suggested that the Exchange apply a different set of listing eligibility requirements for De-SPAC Transactions in Hong Kong, so that companies that cannot meet the existing listing requirements in Hong Kong can obtain a listing status;
 - (b) if the new applicant is able to meet all the initial listing requirements, it may choose to pursue a listing on the Exchange via a traditional IPO instead of via a De-SPAC Transaction, given that the amount of time and documentation required for both routes would be similar;
 - (c) a requirement for IPO Sponsors appointment would increase the time required to complete a De-SPAC Transaction, and compromise the speed of the transaction, which is one of the main benefits of SPACs; and
 - (d) the management continuity and ownership continuity requirements would limit the forms and structures through which De-SPAC Transactions could be completed as they often may result in a change in the ownership and/or management of the De-SPAC Target.

⁸⁶ Rule 8.09(2); Rule 8A.06 (for listings with a WVR Structure); or Rule 18A.03(2) (for listings of Biotech Companies).

⁸⁷ Rule 8.05; Rule 8.05A; or Rule 8.05B.

⁸⁸ Paragraphs 261 to 281 of the Consultation Paper.

⁸⁹ Question 30 in the Consultation Paper.

190. A few respondents proposed that we apply the extreme transaction requirements under Chapter 14 of the Listing Rules to a De-SPAC Transaction (instead of applying the RTO requirements), which would require them to appoint a financial adviser, rather than an IPO Sponsor, to conduct due diligence for the purpose of the De-SPAC Transaction. They believed that this should be adequate to address concerns around possible circumvention of criteria for a new listing.
191. A few respondents suggested that the Exchange grant waivers from strict compliance with the new listing requirements subject to certain conditions being met by the Successor Company.

Exchange Conclusions

192. As mentioned in the Consultation Paper⁹⁰, requiring De-SPAC Transactions to meet the initial listing requirements is consistent with the practice in other exchanges such as those in the US, UK and Singapore. It also ensures that there is a “level playing field” between issuers who choose to list via a traditional IPO and those that choose to list via a De-SPAC Transaction.
193. We note that the exchange rules of other jurisdictions, particularly the US, offer applicants several different categories of listing eligibility criteria to choose from when applying to list. Some of these cater for early stage companies from emerging and innovative sectors. However, these criteria apply equally to both De-SPAC Transactions and traditional IPOs.
194. Consequently, the question of whether the Exchange should offer similar listing eligibility requirements should be considered separately from the mechanism by which a listing is achieved.
195. For example, the Exchange amended its listing eligibility requirements in April 2018 to allow early stage pre-revenue Biotech Companies to list. As we stated in the Consultation Paper, Biotech Companies can achieve a listing using these eligibility requirements through either a De-SPAC Transaction or a traditional IPO. However, the eligibility requirements should be the same whichever listing mechanism is chosen.
196. The Exchange takes a neutral position on the question of whether an issuer should list via a traditional IPO or via a De-SPAC Transaction. The SPAC listing regime implemented through this paper aims to provide an alternative to the traditional IPO route and our intention is not to replace the traditional IPO route. Each route has its benefits and issuers can choose the one that best suits their needs under prevailing market conditions. The introduction of this optionality should make Hong Kong a more attractive listing destination to prospective listing applicants.

⁹⁰ Paragraphs 252 to 256 of the Consultation Paper.

197. The Exchange notes the concern that requiring the appointment of an IPO Sponsor for a De-SPAC Transaction will lengthen the time needed to conduct the transaction (compared to De-SPAC Transaction times in the US). However, it should be noted that the US does not have an IPO Sponsor regime and so does not require the appointment of an IPO Sponsor for a De-SPAC Transaction or for a traditional IPO. Therefore, as with listing eligibility requirements (see paragraph 194), the question of whether an IPO Sponsor is needed should be viewed as an issue that is separate from the listing route chosen.
198. The purpose of the IPO Sponsor requirement is to ensure the quality of assets and businesses listed via De-SPAC Transactions by ensuring that due diligence is performed on them to the same extent as is performed for an IPO.
199. In respect of the application of the management continuity and ownership continuity requirements to a Successor Company, since a De-SPAC Transaction will be considered in the same way as an RTO, the Exchange would consider granting waivers on a case by case basis in accordance with our Guidance on application of the RTO Rules⁹¹.
200. As the De-SPAC Transaction involves the listing of a new business, normally with a change of control, we believe that the more stringent requirements of RTO (including full due diligence performed by an IPO Sponsor) instead of the extreme transaction requirements should apply.
201. In view of the above, we will adopt the proposals on the application of new listing requirements to a De-SPAC Transaction.

II. Eligibility of De-SPAC Targets

202. The Exchange proposed that investment companies (as defined by Chapter 21 of the Listing Rules) should not be eligible De-SPAC Targets.⁹²

Responses Received

203. 81% of respondents who commented (56 respondents) supported this proposal⁹³, while 19% of those who commented (13 respondents) did not support it.

Comments

204. A few respondents that opposed the proposal stated that there had been several successful De-SPAC Transactions in the US with investment companies as the De-SPAC Targets. One respondent argued that an alternative route for investment companies to list may result in more investment companies seeking to go public in Hong Kong.

⁹¹ See Guidance Letter [HKEx-GL104-19](#) "Guidance on application of the reverse takeover Rules", paragraph 56.

⁹² Paragraph 284 of the Consultation Paper.

⁹³ Question 31 in the Consultation Paper.

205. One respondent sought clarification on whether the same set of eligibility tests under Chapter 8A of the Listing Rules would be applied to a Successor Company with a WVR structure, and whether further disclosures should be required of the SPAC at listing on any intention to consider a merger or acquisition that would result in a WVR structure.

Exchange Conclusions

206. As stated in the Consultation Paper⁹⁴, investment companies (under Chapter 21 of the Listing Rules) are listed under a regime that is already separate and distinct from that of a traditional IPO. On this basis, the Exchange does not consider it necessary to accommodate investment companies within the SPAC regime.
207. The listing of a Successor Company with a WVR structure would only be possible if the company met the applicable requirements of the Listing Rules for such companies. No different requirements will be applied because the company lists via a De-SPAC Transaction. The decision of a Successor Company to list with a WVR structure may not be within the SPAC's control as this would largely depend upon the wishes of the controllers of the De-SPAC Target. Consequently, we do not believe it would be appropriate to mandate that a SPAC disclose in its listing document whether or not it intends to complete a De-SPAC Transaction that will result in the listing of a Successor Company with a WVR structure.
208. In view of the above, we will adopt the proposals with some minor drafting amendments (see Rule 18B.38).

III. Size of De-SPAC Target

Fair market value of the De-SPAC Target

209. The Exchange proposed that a De-SPAC Target should have a fair market value of at least 80% of funds raised by the SPAC from its initial offering (prior to any redemptions).⁹⁵

Responses Received

210. 88% of respondents who commented (61 respondents) supported this proposal⁹⁶, while 12% of those who commented (eight respondents) did not support it.

Comments

211. A majority of respondents agreed with the proposal and agreed that this would help ensure that De-SPAC Targets are businesses with sufficient substance to justify a listing.
212. Respondents that opposed this proposal generally suggested a lower percentage requirement for the following reasons:

⁹⁴ Paragraph 284 of the Consultation Paper.

⁹⁵ Paragraph 288 of the Consultation Paper.

⁹⁶ Question 32 in the Consultation Paper.

- (a) this requirement, in combination with the HK\$1 billion minimum fund raising requirement of Rule 18B.08, effectively means that only companies with a valuation of HK\$800 million or above (significantly above the minimum requirements for a Main Board listing) could list via a De-SPAC Transaction;
 - (b) a lower threshold would provide reasonable flexibility to a proposed De-SPAC Transaction and increase the chance of identifying a high quality De-SPAC Target;
 - (c) factors affecting the expected market value of a potential De-SPAC Target (such as government policies and macroeconomic environment) may change drastically within the lifespan of the SPAC; and
 - (d) it would be difficult to accurately estimate the valuation of early stage companies or those in the new economy by the time the SPAC is listed.
213. One respondent sought clarification on how the “fair market value” is to be determined for this purpose.

Exchange Conclusions

214. The Exchange maintains our position that a threshold higher than the current HK\$500 million market capitalisation requirement should be imposed on a De-SPAC Target for the purpose of ensuring the size and quality of the Successor Company.
215. As mentioned in the Consultation Paper⁹⁷, this requirement is consistent with the requirements imposed by the US stock exchanges and the SGX.
216. In respect of the clarification sought on how “fair market value” is to be determined, the Exchange currently expects confirmation from the board of directors of the SPAC on satisfaction of this requirement, taking into account the Negotiated De-SPAC Value. We have set out guidance on how we will assess such a confirmation in the Guidance Letter on SPACs (see Appendix V to this paper).
217. In view of the majority support from respondents and the above, we will adopt the proposal.

Amount of proceeds to be used as consideration for De-SPAC Transaction

218. The Exchange sought respondents’ views on whether the Exchange should impose a requirement that the SPAC use a certain proportion of the net funds it raises (i.e. funds raised from its initial offering plus PIPE investments, less redemptions) as consideration for a De-SPAC Transaction, and if so, whether the proportion should be set at at least 80% of the net funds raised.⁹⁸ The purpose of the requirement was to help prevent the listing of Successor Companies that were cash shells.

⁹⁷ Paragraph 286 of the Consultation Paper.

⁹⁸ Paragraph 289 of the Consultation Paper.

Responses Received

219. 53% of respondents who commented (37 respondents) supported imposing such a requirement⁹⁹, while 47% of those who commented (33 respondents) did not support it.

Comments

220. Respondents that opposed the proposal cited the following reasons:
- (a) such a requirement would disadvantage listing via a De-SPAC Transaction versus listing via a traditional IPO, as an issuer is permitted to retain 100% of the proceeds from a traditional IPO;
 - (b) a De-SPAC Transaction will normally use the shares in the Successor Company as consideration for the transaction so the Successor Company can retain the funds raised by the SPAC for its future development – this would not be possible under the proposal;
 - (c) the proposal may reduce the deal structure flexibility and deter some high quality De-SPAC Targets that do not wish to sell their interest for cash from entering into a De-SPAC Transaction;
 - (d) the proposal would negatively impact marketing to prospective PIPE investors as it may cause a De-SPAC Transaction to be seen as a mechanism for existing shareholders of the De-SPAC Target to exit a sub-standard asset/business; and
 - (e) existing Listing Rule requirements would prevent the listing of cash shell Successor Companies.¹⁰⁰ As the Exchange would vet the eligibility and suitability of a Successor Company for listing, it would be in a position to reject the listing application of any company whose assets consisted wholly or substantially of cash.

Exchange Conclusions

221. In view of the above responses, the Exchange will not impose a requirement that the SPAC use a certain proportion of the net funds it raises (i.e. funds raised from its initial offering plus PIPE investments, less redemptions) as consideration for a De-SPAC Transaction. Instead, we will continue to apply the existing Rules to prevent the listing of Successor Companies which we believe are “cash companies” and therefore unsuitable for listing.

⁹⁹ Question 33 in the Consultation Paper.

¹⁰⁰ For example Rule 8.05C(1).

IV. Independent Third Party Investment

Mandatory PIPE investment

222. The Exchange proposed to mandate that a SPAC obtain funds from outside independent PIPE investors for the purpose of completing a De-SPAC Transaction.¹⁰¹

Responses Received

223. 51% of respondents who commented (39 respondents) supported this proposal¹⁰², while 49% of those who commented (37 respondents) did not support it.

Comments

224. In general, a majority of respondents supported the requirement for mandatory independent PIPE investments for the purpose of completing a De-SPAC Transaction to mitigate the risk of artificial valuations.
225. Some respondents objected to the proposal on the basis that: (a) PIPE investment was sometimes unnecessary for De-SPAC Transactions and its execution could be difficult depending on the prevailing market conditions; and (b) there is no such requirement in a traditional IPO. Also, the controlling shareholder of a Successor Company may not want the De-SPAC Transaction to result in third parties having a substantial stake in the company.
226. Other respondents objected to the proposal on the basis that the redemption rate would already serve as a proxy of market acceptance of a De-SPAC Transaction. Given the proposed alignment of voting with redemption, the shareholder vote on the De-SPAC Transaction would be a sufficient safeguard against artificial valuation of the Successor Company.
227. Some respondents asked for clarification as to whether the requirement could be met in forms of investment other than ordinary equity (e.g. convertible bonds).

Exchange Conclusions

228. Unlike a traditional IPO, the valuation of a De-SPAC Target is not determined by underwriters using bookbuilding to gauge market demand from a large number of outside investors. Instead, the value of a De-SPAC Target is determined by negotiations between the De-SPAC Target and the SPAC Promoters.
229. Given this small circle of firms that decide the valuation of a De-SPAC Target, without independent verification on its valuation, there is a heightened risk of manipulation of the valuation to meet a pre-defined target, which may be used to circumvent our listing eligibility requirements.
230. For this reason, we believe that independent PIPE investment would serve as an important safeguard to provide support for such valuations. Independent PIPE investors' commitment of "capital at risk" at the agreed valuation would help demonstrate that it is genuine.

¹⁰¹ Paragraph 295 of the Consultation Paper.

¹⁰² Question 35 in the Consultation Paper.

231. In view of the above and support from the majority of respondents, we will adopt our proposal to mandate independent PIPE investment to complete a De-SPAC Transaction.
232. We wish to clarify that the mandatory independent PIPE investments must be made in the form of shares in the Successor Company which are in the same class as the shares to be listed. This means that the mandatory portion of PIPE investments cannot be made in forms of investment with downside protection (such as convertible bonds) as this would undermine the purpose of the requirement to support the valuation of the De-SPAC Target. We have amended the Listing Rules to include this clarification (see Rule 18B.43 of Appendix IV).

Minimum independent PIPE investment

233. The Exchange proposed that the outside independent PIPE investment constitute at least 25% of the expected market capitalisation of the Successor Company. We stated that we would accept a lower percentage of between 15% and 25% in the case of Successor Companies with an expected market capitalisation, at the time of listing, of over HK\$1.5 billion.¹⁰³

Responses Received

234. Of the respondents who supported the proposal for mandatory PIPE investment (see paragraph 222), 68% of respondents who commented (26 respondents) supported the proposals on the percentage size of the PIPE investment (see paragraph 233)¹⁰⁴, while 32% of those who commented (12 respondents) did not support it.

Comments

235. A number of respondents suggested lowering the minimum level of PIPE investments required, or removing any such threshold and leaving this as a commercial decision for the SPAC Promoters and the De-SPAC Target to determine.
236. Some opposing respondents were of the view that:
- (a) the proposed 15% to 25% minimum independent PIPE investment thresholds were too stringent and difficult to achieve in practice, given that the median size of PIPE investment for the most recently completed De-SPAC Transactions in the US in 2021 only contributed to around 14% of the expected market capitalisation of the Successor Company¹⁰⁵; and
 - (b) the proposal could lead to unnecessary dilution to existing SPAC shareholders and SPAC Promoters, particularly where the SPAC already has sufficient financial resources to fund the De-SPAC Transaction without having to meet the proposed threshold for the PIPE investment.

¹⁰³ Paragraph 296 of the Consultation Paper.

¹⁰⁴ Question 36 in the Consultation Paper.

¹⁰⁵ De-SPAC Transactions completed in the US between 15 September 2021 and 22 October 2021, based on data provided by one respondent.

237. A few respondents suggested alternative methods for setting the thresholds, such as expressing the thresholds in absolute amount (instead of percentage requirement), or the application of staggered thresholds to cater for companies of different sizes.

Exchange Conclusions

238. Having taken into consideration feedback from respondents, the Exchange has decided to remove the alignment of redemption with voting (see paragraphs 326 to 331) as the proposal may have the unintended result of incentivising shareholders to vote against a De-SPAC Transaction for the sole reason that it provides them with the option to redeem. Such an outcome will mean that those voting results will not accurately reflect shareholders' views on than the terms and valuation of the De-SPAC Transaction. Instead, we have strengthened the requirements on independent PIPE investments to support the valuation of the De-SPAC Target and the level of investor interest in the Successor Company.¹⁰⁶
239. As suggested by a number of respondents, the Exchange will adopt staggered thresholds to cater for De-SPAC Targets of different sizes. We will require the amount to be raised from the independent PIPE investors to constitute at least the percentage of the Negotiated De-SPAC Value in Table 3 below.

Table 3: Minimum percentage requirement on independent PIPE investment

Negotiated De-SPAC Value (A)	Minimum independent PIPE investment as a percentage of (A)
Less than HK\$2 billion	25%
HK\$2 billion or more but less than HK\$5 billion	15%
HK\$5 billion or more but less than HK\$7 billion	10%
HK\$7 billion or more	7.5%

240. A De-SPAC Announcement must disclose the Negotiated De-SPAC Value and the basis upon which such value was determined, and the identity of and the amount committed to the De-SPAC Transaction by each PIPE investor.
241. We will also require all PIPE investors (including independent PIPE investors) to be Professional Investors. This means all new investors (including the independent PIPE investors) who will become shareholders of the Successor Company upon completion of the De-SPAC Transaction must be Professional Investors.
242. We have amended the Listing Rules accordingly (see Rules 18B.41 and 18B.65 in Appendix IV).

¹⁰⁶ In line with Rule 8.07.

Minimum investment by significant PIPE investor(s)

243. We proposed that at least one independent PIPE investor in a De-SPAC Transaction must be an asset management firm with assets under management of at least HK\$1 billion or a fund of a fund size of at least HK\$1 billion and that its investment must result in it beneficially owning at least 5% of the issued shares of the Successor Company as at the date of the Successor Company's listing.¹⁰⁷

Responses Received

244. Of the respondents who supported the proposal for mandatory PIPE investment (see paragraph 222), 66% of respondents who commented (25 respondents) supported the proposal that at least one independent PIPE investor in a De-SPAC Transaction must be an asset management firm satisfying the requirement (see paragraph 243)¹⁰⁸, while 34% of those who commented (13 respondents) did not support it.

Comments

245. Regarding this proposal, opposing respondents stated that:
- (a) it would be very difficult to achieve, particularly for large De-SPAC Transactions, and would disadvantage listing via a De-SPAC Transaction relative to a traditional IPO where no such requirement is imposed;
 - (b) it would reduce the number of PIPE investors a SPAC can raise funds from for smaller De-SPAC Transactions, concentrating the fundraising to only a small number of PIPE investors;
 - (c) the investment mandates of most asset management firms in Asia do not allow them to take significant stakes in SPAC related investments;
 - (d) the requirement may result in a large institution invariably exercising an outsize influence on the Successor Company, raising potential corporate governance issues.
246. Some respondents suggested limiting the requirement only to De-SPAC Transactions involving Biotech Companies under Chapter 18A of the Listing Rules, as this requirement is not necessary for other companies where the De-SPAC Targets normally have a track record of revenue from their operations.

Exchange Conclusions

247. Given that the proposal regarding the alignment of voting and redemption will not be adopted (see paragraphs 326 to 331), we will strengthen the requirements regarding significant investment from sophisticated investors. This is to ensure that a substantial portion of independent PIPE investment originates from large institutional investors.

¹⁰⁷ Paragraph 297 of the Consultation Paper.

¹⁰⁸ Question 37 in the Consultation Paper.

248. Having taken into account the respondents' feedback and data from recently completed De-SPAC Transactions in the US, the Exchange has revised the requirement to state that at least 50% of the independent PIPE investment (see paragraph 239) must be contributed by at least three sophisticated investors and will no longer require a single PIPE investor to take up 5% of the shares of the Successor Company.
249. We will define a sophisticated investor as an asset management firm with assets under management of at least HK\$8 billion or a fund with a fund size of at least HK\$8 billion.
250. A fund managed by a fund manager that has assets under management of at least HK\$8 billion would qualify as a sophisticated investor for this purpose.
251. As with the "sophisticated investor" requirements for Biotech Companies, we have included the above requirements in the Guidance Letter on SPACs (see Appendix V to this paper) to retain flexibility as our experience for SPACs develops.

Independence of PIPE investors

252. We proposed to apply the same criteria that we apply to an IFA to determine the independence of a PIPE investor in a De-SPAC Transaction.¹⁰⁹

Responses Received

253. Of the respondents who supported the proposal for mandatory PIPE investment (see paragraph 222), 81% of respondents who commented (30 respondents) supported the proposal¹¹⁰, while 19% of those who commented (seven respondents) did not support it.

Comments

254. A few respondents believed the independence test to be too restrictive and that it would reduce the pool of eligible PIPE investors. This would potentially make SPAC fundraising in Hong Kong less competitive than in jurisdictions that did not apply an independence test.
255. Two respondents said that it would be an onerous due diligence exercise to verify that each PIPE investor (including their entire group of companies) fulfils the independence requirements.

Exchange Conclusion

256. We consider independent PIPE investments to be an important safeguard to independently support the valuation of a De-SPAC Target (see also paragraphs 228 to 230). It is therefore critical to ensure that the test for independence is rigorous. The application of IFA requirements is necessary to ensure this.
257. In view of the majority support from respondents, we will adopt the proposal.

¹⁰⁹ Paragraph 298 of the Consultation Paper.

¹¹⁰ Question 38 in the Consultation Paper.

V. Dilution Cap

Proposal for a dilution cap

258. The Exchange proposed to impose a cap on the maximum dilution possible from the conversion of Promoter Shares and exercise of warrants issued by a SPAC.¹¹¹

Responses Received

259. 60% of respondents who commented (43 respondents) supported this proposal¹¹², while 40% of those who commented (29 respondents) did not support it.

Comments

Dilution cap on Promoter Shares

260. The majority of respondents supported the proposed cap on Promoter Shares, as they believed it would help limit the misalignment of interests between SPAC Promoters and independent shareholders and mitigate the potential dilutive impact to non-redeeming SPAC shareholders.

Dilution cap on warrants

261. A number of respondents objected to the proposal on imposing caps on warrants, citing one or more of the following reasons:
- (a) all SPAC shareholders receive the same ratio of warrants to shares and so none of them would be disadvantaged unfairly by dilution;
 - (b) potential investors in the Successor Company will be fully informed of the dilutive effect of the warrants in the listing document published for the purpose of the De-SPAC Transaction, and so it should be left as a commercial decision by SPAC Investors to determine whether the proposed dilution is acceptable;
 - (c) the Exchange currently accepts listing via a traditional IPO where investment in the IPO is subject to dilution by pre-existing convertible bonds and share schemes, and such form of dilution is not subject to a cap. Consequently, capping the dilution arising from warrants issued by a SPAC would disadvantage listing via the SPAC route compared to listing via a traditional IPO; and
 - (d) the market would dictate the level of dilution SPAC shareholders are willing to accept based on the track record and reputation of the SPAC Promoters. The Exchange should not set arbitrary percentage caps on such matters.

Exchange Conclusions

Promoter Share cap

262. We agree with the view of a majority of respondents that it is necessary to set a cap on the issue of Promoter Shares and will implement our proposal accordingly.

¹¹¹ Paragraph 311 of the Consultation Paper.

¹¹² Question 39 in the Consultation Paper.

Warrant cap

263. We believe a warrant cap is required to limit the dilution that the investors (including retail investors) will experience if they invest in the Successor Company.
264. Although these investors would be able to access the disclosure in the listing document (published for the De-SPAC Transaction) on the dilutive effect of the outstanding warrants, (a) they may not read the listing document, as unlike in a traditional IPO, the listing document is issued primarily for the benefit of existing SPAC shareholders and is not issued for the benefit of new investors in the Successor Company; and (b) new retail investors may not have the knowledge and experience to recognise the full dilutive effect.
265. For these reasons we will maintain the requirement but, in view of the responses received, we will amend the proposed dilution cap thresholds as set out below (see paragraphs 269 to 274) and impose the following requirements to help ensure new investors in the Successor Company are aware of potential dilution:
- (a) prominent disclosure of the dilutive effect of all warrants issued by the SPAC must be included in the listing document produced for the De-SPAC Transaction; and
 - (b) immediately upon its listing, the Successor Company must separately announce the dilutive effect of the warrants for the benefit of new investors.

Dilution cap thresholds

266. The Exchange proposed the following mechanisms to limit dilution. A SPAC is prohibited from issuing:
- (a) Promoter Shares to SPAC Promoters that represent more than 20% of the total number of shares the SPAC has in issue as at the date of its listing, and if the Promoter Shares are convertible into ordinary shares, such conversion shall be on a one-for-one basis only;
 - (b) SPAC Warrants or Promoter Warrants that entitle the holder to more than a third of a share upon their exercise;¹¹³
 - (c) warrants, in aggregate (i.e. SPAC Warrants plus Promoter Warrants) that, if immediately exercised (whether or not such exercise is permissible), result in the issue of shares of a number that is greater than 30% of the number of shares in issue at the time such warrants are issued; and
 - (d) Promoter Warrants that, if immediately exercised (whether or not such exercise is permissible), result in the issue of shares of a number that is greater than 10% of the number of shares in issue at the time such warrants are issued.¹¹⁴

¹¹³ This would mean that an investor must hold at least three SPAC Warrants or at least three Promoter Warrants to be able to convert them into one share.

¹¹⁴ Paragraph 311 of the Consultation Paper.

Responses Received

267. Of the respondents who supported the proposal on dilution caps (see paragraph 258), 88% of respondents who commented (36 respondents) supported the proposed anti-dilution thresholds¹¹⁵, while 12% of those who commented (five respondents) did not support them.

Comments

Promoter Share cap

268. The majority of respondents were supportive of a 20% cap on Promoter Shares as they believed this is in line with the US practice.

Warrant to share ratio cap

269. Some market participants commented that the cap on the maximum warrant to share ratio of a third (see paragraph 266(b)) implied that greater dilution was permitted than what the 30% cap on warrant issuance (see paragraph 266(c)) would allow. They asked the Exchange to clarify which cap should be applied.

Warrant cap

270. Some respondents who commented on this matter stated that the majority of US listed SPACs had issued warrants that would breach the 30% dilution cap proposed by the Exchange (some stakeholders provided statistics to support this claim) and that this cap would not accommodate the one-to-one and one-to-two warrant to share ratios that were typically seen in US SPACs. Consequently, the Exchange's proposals were uncompetitive relative to the US practice.
271. Respondents commented that the warrant to share ratio should be driven by commercial factors, as SPAC Warrants are incentives offered by the SPAC to compensate its initial investors for the lack of return on their investment until a De-SPAC Transaction occurs and the uncertainty as to whether a De-SPAC Transaction will take place at all.
272. Respondents also noted the proposal is out of line with the requirements in other jurisdictions (i.e. the US, the UK and Singapore). In particular, it was noted that SGX had revised its proposals to impose a 50% cap, following public consultation, taking into consideration "*the typical warrant ratio based on our observations of the practices in the U.S.*"

Promoter Warrant cap

273. Some market participants commented that this cap would not be sufficient for SPAC Promoters to pay for the upfront expenses of the SPAC at the prices they normally pay for Promoter Warrants in the US (US\$1 to US\$1.5 per warrant).
274. A few respondents said that a cap on Promoter Warrants would be unnecessary if a cap is already imposed on all warrants in aggregate.

¹¹⁵ Question 40 in the Consultation Paper.

Exchange Conclusions

Promoter Share cap

275. In view of the majority support from respondents we will implement this proposal.

Warrant to share ratio cap

276. To address potential conflict with the percentage cap noted by market participants, we will remove the warrant to share ratio cap and rely only upon an overall percentage cap on the issue of warrants instead (see paragraph 277 below).

Warrant cap

277. We note the respondents' comment that the proposed warrant dilution cap of 30% may not provide a sufficient commercial incentive for potential investors in a SPAC's initial offering. Taking into account the market feedback and the risk of significant dilution, we will increase the warrant cap, for SPACs, to 50% of the number of shares in issue at the time such warrants are issued. For the avoidance of doubt, the number of shares that forms this denominator includes any Promoter Shares in issue at the time the warrants are issued.

Promoter Warrant cap

278. Promoter Warrants are used as a mechanism by which a SPAC Promoter pays for the SPAC's expenses and not, primarily, a compensation mechanism for the SPAC Promoter. Consequently, these warrants do not need to be issued in numbers that correlate to the number of Promoter Shares.
279. We note that the SPAC regime in the US and the finalised UK and Singapore regimes do not impose a separate Promoter Warrant Cap and so acknowledge that imposing such cap would not be in line with market practice. The Exchange also agrees with the respondents' comment that, as a cap is imposed on all warrants in aggregate, it is not necessary to impose a separate cap on Promoter Warrants. Further, removing the Promoter Warrant cap will provide flexibility to a SPAC to adjust the proportion of SPAC Warrants and Promoter Warrants it issues. In view of the above, the Exchange will not impose a separate cap on Promoter Warrants.
280. A SPAC may also use methods other than the issue of Promoter Warrants (such as the issuance of a promissory note) to raise sufficient funds from the SPAC Promoter to cover its expenses, subject to compliance with applicable Listing Rules including connected transaction requirements¹¹⁶.

Rights to additional Successor Company shares

281. The Exchange proposed that it would be willing to accept requests from a SPAC to issue additional Promoter Shares, as an earn out portion, subject to the following conditions:

¹¹⁶ See the Guidance Letter on SPACs that forms Appendix V to this paper for the Exchange's guidance on loans by a SPAC Promoter to the SPAC.

- (a) the total number of Promoter Shares (including the earn-out portion) should represent an amount not more than 30% of the total number of shares in issue at the time of the SPAC listing;
- (b) the earn-out portion is linked to objective performance targets (such as a targeted level of revenue or profits, as reported in the Successor Company's audited financial statements for a designated financial period). To mitigate the risk of manipulation, these performance targets should not be determined by changes in the price or trading volume of the Successor Company's shares;
- (c) SPAC shareholders having granted approval, at the general meeting called to approve the De-SPAC Transaction, of the earn-out portion; and
- (d) such earn-out portion shall be included in the resolution approving the De-SPAC Transaction.¹¹⁷

Responses Received

282. Of the respondents who supported the proposal on dilution caps (see paragraph 258), 100% of respondents who commented (42 respondents) supported this proposal in general¹¹⁸.

Comments

283. Some respondents objected to linking the earn-out portion to performance targets other than changes in the price of the Successor Company's shares. This is because at the point of issuance of the Promoter Shares (typically at the SPAC's initial listing), the business model of the Successor Company that may result from the De-SPAC Transaction is not known. Consequently, it is not feasible to link the earn-out to non-share price based performance targets. For example, using a profit based performance target would preclude the SPAC from seeking a De-SPAC Target whose business model was based on prioritising market share over profit.

Exchange Conclusions

284. The purpose of the proposed prohibition on the linking of earn-outs to share price was to mitigate the risk of manipulation of the Successor Company's share price by the SPAC Promoter (or its associates) to meet those targets.
285. However, we acknowledge that SPAC Promoters may not be involved in the management and operation of the Successor Company and so may have no influence on its business performance. In view of comments from respondents, we will allow the earn-out to be linked to the share price of the Successor Company, provided that each earn-out target is based on metrics that mitigate the risks of share price manipulation and volatility in share price that may follow the listing of the Successor Company.

¹¹⁷ Paragraph 312 of the Consultation Paper.

¹¹⁸ Question 41 in the Consultation Paper.

286. Accordingly, we have amended the Rules (see Note 1(b) to Rule 18B.29(1)) to require that the performance targets linked to earn-outs must be (a) at least 20% higher than the issue price of the SPAC Shares at the listing of the SPAC; and (b) satisfied by exceeding a pre-defined volume weighted average price of the Successor Company's shares¹¹⁹ over a period of not less than 20 trading days within a 30 consecutive trading day period, with such period commencing at least six months after the listing of the Successor Company.

Timing

287. We have concluded that a SPAC Promoter must not be granted the right to the earn-out portion ("earn-out rights") through the issuance of Promoter Shares at the time of the SPAC's initial listing.
288. We will, instead, impose the following requirements regarding the timing and mechanism by which earn-out rights are granted:
- (a) the Listing Document produced for a SPAC's initial listing must disclose any earn-out rights proposed to be issued to the SPAC Promoter upon the completion of the De-SPAC Transaction, including details of such earn-out rights (e.g. the performance targets); and
 - (b) at the time of a De-SPAC Transaction, the De-SPAC Announcement and the Listing Document produced for the transaction must disclose the material terms of the earn-out rights that have been negotiated and agreed between the parties to the transaction.
289. In addition, the earn-out rights granted to the SPAC Promoter must comply with the restrictions set out in paragraph 281, as modified by the following (see Note 1 to Rule 18B.29) :
- (a) the total number of ordinary shares of the Successor Company to be issued under (i) such earn-out rights ("earn-out shares") and (ii) all Promoter Shares must, altogether, represent an amount not more than 30% of the total number of shares that the SPAC had in issue as at the date of its listing;
 - (b) the earn-out rights must only be convertible into earn-out shares subject to the satisfaction of objective performance targets, and if such targets are determined by changes in the price of the Successor Company's shares, they must fulfil the requirements as set out in paragraph 286. For the avoidance of doubt, the earn-out shares will be subject to the lock-up period set out in Rule 18B.66;
 - (c) SPAC shareholders having granted approval, at the general meeting called to approve the De-SPAC Transaction, of the earn-out rights; and such earn-out rights must be included in the resolution approving the De-SPAC Transaction. Voting restrictions in relation to a De-SPAC Transaction (see section VI in this chapter) will apply;

¹¹⁹ Calculated based on the Exchange's daily quotations sheets.

- (d) any instruments or securities representing the earn-out rights must only carry the earn-out rights and should not entitle their holders to any other rights such as voting and dividend rights; and
 - (e) where the De-SPAC Transaction does not complete, the earn-out rights must be cancelled and void.
290. We have also clarified in the Rules (see Notes 2 and 3 to Rule 18B.29(1)) that the SPAC Promoter must notify the Successor Company in writing as soon as an earn-out target is met and the Successor Company must announce that notification. A Successor Company must also announce, as soon as practicable, the issuance of the earn-out shares (see Note 4 to Rule 18B.29(1)).

Prohibition on anti-dilution rights to SPAC Promoters

291. The Exchange proposed that a SPAC must not grant any anti-dilution rights to a SPAC Promoter that would result in the SPAC Promoter holding more than the number of Promoter Shares that they held at the time of the SPAC's initial offering.¹²⁰

Responses Received

292. 80% of respondents who commented (53 respondents) supported our proposal¹²¹, while 20% of those who commented (13 respondents) did not support it.

Comments

293. Some supporting respondents stated that SPAC Promoters should not be granted more Promoter Shares than they held at the time of the SPAC's initial offering. They believed that Promoter Shares would be issued in the knowledge of the extent of possible dilution and that granting them an anti-dilution right to maintain their shareholding percentage would be unfair to the other shareholders.
294. Some opposing respondents suggested that, as an effective protection against dilution, the proposed requirement on anti-dilution rights granted to a SPAC Promoter should restrict them from holding more than the "percentage shareholding" (instead of the "number of Promoter Shares") that they held at the time of the SPAC's initial offering. They also believed this to be in line with market practice in the US.
295. A number of respondents commented that it is not necessary to impose the proposed requirement. They were of the view that dilution, which is inherent in SPACs, is a commercial matter and should be left for market participants to determine. They believed SPAC Promoters should be allowed flexibility in structuring SPAC deals to protect their commercial interests under the regulatory framework, so long as it is done fairly and reasonably.

¹²⁰ Paragraph 313 of the Consultation Paper.

¹²¹ Question 42 in the Consultation Paper.

Exchange Conclusions

296. In the US, anti-dilution rights granted to SPAC Promoters usually entitle them to receive a proportion of a Successor Company's shares equivalent to the proportion of Promoter Shares at the time of listing of a SPAC, to protect them against dilution. However, we also understand that, in practice, such rights are often given up by the SPAC Promoters at the time of negotiations with the controlling shareholders of the De-SPAC Target.
297. The intention of our proposed requirement was to ensure that a SPAC Promoter is not granted anti-dilution rights that are unavailable to ordinary shareholders. However, we acknowledge that this intention could have been more clearly stated. We wish to clarify that US-style anti-dilution rights that are exclusively granted to SPAC Promoters (and not other shareholders) will not be permissible under our regime. We will instead apply existing Rule requirements that require such rights to terminate upon listing¹²². After listing, any grant of anti-dilution rights to SPAC Promoters will be subject to compliance with existing requirements¹²³.

VI. Shareholder Vote on De-SPAC Transactions

298. The Exchange proposed that a De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting. Written shareholders' approval will not be accepted in lieu of holding a general meeting.¹²⁴
299. We also proposed that a shareholder and its close associates must abstain from voting at the relevant general meeting on the relevant resolution(s) to approve a De-SPAC Transaction if they have a material interest in the transaction. This would mean that:
- (a) the SPAC Promoter(s) and their close associates must abstain from voting; and
 - (b) any outgoing controlling shareholder(s) of the SPAC and their close associates, if the De-SPAC Transaction results in a change of control, must not vote in favour of the relevant resolution(s).¹²⁵

Responses Received

300. 97% of respondents who commented (72 respondents) supported this shareholder vote proposal¹²⁶, while 3% of those who commented (two respondents) did not support it.
301. Of the respondents who supported the shareholder vote proposal, 90% of respondents who commented (65 respondents) supported the proposal to prohibit the stated parties from voting on the transaction (see paragraph 299)¹²⁷, while 10% of those who commented (seven respondents) did not support it.

¹²² See Guidance Letter [HKEx-GL43-12](#) "Guidance on Pre-IPO investments", paragraph 3.10.

¹²³ Including shareholder approval requirements under Rule 13.36 and connected transaction requirements under Chapter 14A.

¹²⁴ Paragraph 320 of the Consultation Paper.

¹²⁵ Paragraph 321 of the Consultation Paper.

¹²⁶ Question 43 in the Consultation Paper.

¹²⁷ Question 44 in the Consultation Paper.

Comments

302. Whilst most respondents agreed with the general requirement that the SPAC's shareholders and their close associates must abstain if they have a material interest in the transaction, some respondents objected to the proposal to specify that the SPAC Promoters and any outgoing shareholder(s) of the SPAC and their respective close associates must not vote on the De-SPAC Transaction. They believed that:
- (a) being a SPAC Promoter, in itself, should not give rise to a material conflict of interest and that a SPAC Promoter should be allowed to vote if evidence of its independence could be demonstrated. A SPAC Promoter's ability to vote in favour of a De-SPAC Transaction would provide a higher degree of comfort to the De-SPAC Target and also deal certainty;
 - (b) if a SPAC's outgoing controlling shareholder is not a SPAC Promoter, it would have the same interest in the De-SPAC Transaction as every other SPAC shareholder, and should not be prohibited from voting in favour of the transaction;
 - (c) such a prohibition is out of line with the practice adopted in the SPAC regimes in the US;
 - (d) the requirement would reduce the certainty that a De-SPAC Transaction completes successfully, which in turn would dissuade De-SPAC Targets from listing via a De-SPAC Transaction as the uncertainties detract the attractiveness of listing via the SPAC route as compared to other funding options; and
 - (e) other safeguards such as redemption right, PIPE investment and the lock-up of Promoter Shares offer sufficient protection to the other shareholders on the terms of the De-SPAC Transaction.
303. Some respondents suggested that the Exchange adopt SGX's position and allow the SPAC Promoters to vote any SPAC Shares acquired by them (but not Promoter Shares) for the purpose of approving a De-SPAC Transaction, as the interests of the SPAC Promoter and ordinary SPAC shareholders are aligned with respect to those shares.

Exchange Conclusions

304. It has been a long standing principle under the Listing Rules¹²⁸ that a person who has a material interest in a transaction shall abstain from voting on the resolution(s) approving the transaction at the general meeting.
305. SPAC Promoters are incentivised to vote for a De-SPAC Transaction to enable the conversion of the Promoter Shares, which, unlike SPAC shareholders, they would obtain for nominal value. The Exchange therefore considers that SPAC Promoters have a material interest in a De-SPAC Transaction that is different from that of ordinary shareholders and maintains the view that SPAC Promoters and their close associates must abstain from voting on the De-SPAC Transaction. This applies to all shares held by them (Promoter Shares and SPAC Shares).

¹²⁸ Rules 2.15 and 2.16.

306. With respect to the outgoing controlling shareholder of a SPAC, we will apply the same requirements that we apply to RTOs¹²⁹. This means an outgoing shareholder and its close associates would be permitted to vote in favour of a De-SPAC Transaction if such a controlling shareholder would cease to be a controlling shareholder solely as a consequence of dilution to its shareholding through the issue of new shares to the incoming controlling shareholder resulting from the De-SPAC Transaction. Accordingly, we have not adopted the proposal to impose a voting restriction on the outgoing controlling shareholder (see paragraph 299(b)).
307. In view of the above and taking into account feedback from the respondents we have adopted our proposals with the amendments referred to in paragraph 306.

Shareholder Approval of Terms of Outside Investment

308. We proposed that the terms of any outside investment (including the PIPE investment) obtained for the purpose of completing a De-SPAC Transaction must be included in the relevant resolution(s) that are the subject of the shareholders vote at the general meeting.¹³⁰

Responses Received

309. Of the respondents who supported the shareholder vote proposal, 94% of respondents who commented (66 respondents) supported that the terms of outside investment must be included in the relevant resolution(s) that are the subject of the shareholders vote at the general meeting¹³¹, while 6% of those who commented (four respondents) did not support it.

Comments

310. Some respondents commented that whilst the terms of such investment would be material information that should be disclosed (such as by way of inclusion as part of the circular), it was unnecessary to require inclusion of the terms in the resolution approving the transaction. Instead, the normal disclosure requirements under the Listing Rules should apply.
311. Some respondents were of the view that a single resolution should cover both the PIPE investments and the De-SPAC Transaction, as the terms of the PIPE investments and the De-SPAC Transaction are likely inter-conditional with each other.

¹²⁹ See Rule 14.55.

¹³⁰ Paragraph 322 of the Consultation Paper.

¹³¹ Question 45 in the Consultation Paper.

Exchange Conclusions

312. The proposal to mandatorily require PIPE investments to be subject to shareholder approval is consistent with the existing requirements under the Listing Rules¹³². The general position of the Listing Rules is that a shareholder should be able to protect his proportion of total equity by having the opportunity to subscribe for any new issue of equity securities, unless the shareholders otherwise permit by way of consent of shareholders in a general meeting. This may be by way of a general mandate in accordance with the Rules, or a specific mandate, in which case an issuer must give shareholders sufficient information to enable them to make an informed assessment of the issue.
313. As a PIPE investment may result in substantial dilution to the SPAC shareholders through the issuance of shares in the Successor Company to the PIPE investors, we believe the PIPE investment must be subject to shareholder approval. The terms of PIPE investments could be voted on together with the De-SPAC Transaction as one resolution, or separately. The terms of the PIPE investment must be disclosed in the circular in accordance with the existing requirements under the Rules but does not need to be included in the resolution itself. We have amended the proposed Rule accordingly (see Rule 18B.55).
314. In view of the majority support from respondents, subject to the above amendment, we will adopt the proposal with minor amendment referred to in paragraph 313.

VII. De-SPAC Transactions Involving Connected De-SPAC Targets

315. The Exchange proposed to extend the definition of a “connected person” to include a SPAC Promoter; the SPAC’s trustee/custodian; a SPAC director and an associate of any of these parties.¹³³ A De-SPAC Transaction would be considered a “connected transaction” if it may confer benefits on any of the parties set out above through their interests in the entities involved in the transaction.
316. The Exchange proposed to apply its connected transaction Rules and the following additional requirements to a De-SPAC Transaction involving a connected target:¹³⁴
- (a) demonstrate that minimal conflicts of interest exist in relation to the proposed acquisition;
 - (b) support, with adequate reasons, its claim that the transaction would be on an arm's length basis.

The requirements referred to in (a) and (b) above may be evidenced, for example, by:

- (i) demonstrating that the SPAC and its connected persons are not controlling shareholders of the De-SPAC Target and

¹³² See Rule 13.36(1).

¹³³ Paragraph 329 of the Consultation Paper.

¹³⁴ Paragraphs 331 to 335 of the Consultation Paper.

- (ii) no cash consideration being paid to connected persons, and any consideration shares issued to the connected persons being subject to a lock-up period of 12 months; and
- (c) include an independent valuation in the Listing Document for the De-SPAC Transaction.

Responses Received

317. 97% of respondents who commented (71 respondents) supported this proposal¹³⁵, while 3% of those who commented (two respondents) did not support it.

Comments

318. One respondent agreed with the proposal but suggested the SPAC's trustee / custodian should not be considered a connected person, if it is only a trustee / custodian of the SPAC's listing proceeds and is not involved in the operation of the SPAC or in De-SPAC Transaction negotiations.
319. Some respondents agreed with the application of the existing connected transaction Rules but opposed imposing the additional requirements referred to in paragraph 316 above. They were of the view that the proposed additional requirements (except for the requirement for independent valuation) were too subjective and vague, and it was unclear how they would work in practice.

Exchange Conclusions

320. In view of the majority support from respondents, we will adopt the proposals regarding the application of connected transaction rules to De-SPAC Transactions.
321. A person would not be considered a connected person for the purpose of a De-SPAC Transaction for the sole reason that it acts as a SPAC's trustee or custodian, and so we have not adopted the Consultation Paper proposal to include a SPAC's trustee or custodian as a connected person in the context of a SPAC. We have reflected this in the Rules accordingly (see Rule 18B.01 in Appendix IV).
322. We disagree with respondents who opposed the application of the proposed additional requirements to a De-SPAC Transaction involving a connected target as we believe them to be sufficiently objective and precise to work in practice.

VIII. Alignment of Voting with Redemption

323. The Exchange proposed that SPAC shareholders should only be able to redeem SPAC Shares if they vote against any one of the following matters: (a) a material change in a SPAC Promoter or the eligibility and/or suitability of a SPAC Promoter; (b) a De-SPAC Transaction; or (c) a proposal to extend the De-SPAC Announcement Deadline or the De-SPAC Transaction Deadline.¹³⁶

¹³⁵ Question 46 in the Consultation Paper.

¹³⁶ Paragraphs 340 and 352 of the Consultation Paper.

Responses Received

324. 53% of respondents who commented (40 respondents) supported this proposal¹³⁷, while 47% of those who commented (35 respondents) did not support it.

Comments

325. A large number of respondents (including both sell-side and buy-side industry representatives) disagreed with the proposal citing one or more of the following reasons:
- (a) it will unnecessarily result in the rejection of more De-SPAC Transactions as investors who wish to redeem must vote against the De-SPAC Transaction (when they might otherwise vote in favour or abstain). The uncertainty that this creates will mean it will be more difficult to obtain sufficient interest from Professional Investors in a SPAC's initial listing, would dissuade SPAC Promoters from risking their capital to set up a SPAC in Hong Kong and would also discourage PIPE investors from making PIPE investments;
 - (b) the requirement may not reliably validate the terms of a De-SPAC Transaction, as a decision to redeem may be based on factors other than the fairness and reasonableness of the transaction terms (for example, market conditions may make it more advantageous to redeem or a firm's mandate or trading strategy may not permit it to hold the Successor Company's shares);
 - (c) under the proposals some types of investor who adopt an arbitrage trading strategy would be forced to vote against a De-SPAC Transaction to redeem their SPAC Shares in order to realise an arbitrage opportunity, despite supporting the De-SPAC Transaction in general and, for this reason, continuing to hold SPAC Warrants to realise the benefit of the completion of the De-SPAC Transaction. We note that in the US, the participation of this type of investor helps ensure sufficient liquidity in the trading of SPAC securities;
 - (d) other mechanisms (SPAC Promoter qualification requirements, a mandatory PIPE investment of a substantial size and extensive lockups) already provide strong checks on the fairness/reasonableness of the terms of a De-SPAC Transaction;
 - (e) it will make the SPAC listing route less attractive to De-SPAC Targets than a traditional IPO which does not carry such uncertainties;
 - (f) it limits the freedom and rights of a SPAC's public investors, with the freedom to redeem SPAC shares (irrespective of voting behaviour) being a critical feature of SPAC investment; and
 - (g) it is out of line with international practice as the US and UK do not impose the requirement and SGX removed it from its proposed requirements following consultation.¹³⁸

¹³⁷ Question 47 in the Consultation Paper.

¹³⁸ SGX Response Paper, paragraphs 3.3 on page 43. SGX considered past US experience that linking redemption right and voting could lead to undesirable behaviour, such as shareholder groups pressuring the SPAC by refusing to vote in favour of the business combination, and increased the risk of a SPAC failing to complete a business combination.

Exchange Conclusions

326. As stated in the Consultation Paper, linking the redemption option to votes cast against a De-SPAC Transaction was proposed to help ensure that the vote serves as a meaningful check that the terms of the transaction are fair and reasonable and that the interests of non-redeeming shareholders are not prejudiced by votes cast by persons whose interests are not aligned with their own.
327. We note the strength of the concerns expressed by respondents that adopting this proposal may jeopardize the overall attractiveness of a SPAC regime in Hong Kong. We also note that the proposal may not serve as a meaningful regulatory safeguard on the terms and valuation of the De-SPAC Transaction, as an investor's decision to redeem may be based on factors other than the terms of that transaction.
328. Further, the original proposal may create unintended consequences such as incentivising investors to vote against a De-SPAC Transaction for the sole reason that it provides them with the option to redeem, especially if the SPAC Shares trade at a price below the redemption price (which is now commonly the case in the US). Such an outcome will mean that those voting results will not accurately reflect shareholders' views on the terms and valuation of the De-SPAC Transaction.
329. Also, we agree that PIPE investment would provide a more meaningful check on the terms and valuation of the De-SPAC Transaction as the interests of PIPE investors would be aligned with the interests of the public investors in the Successor Company. Also, these investors will often conduct detailed due diligence on a De-SPAC Target in light of the substantial size of the capital they will put at risk through their investment.
330. We have therefore decided not to adopt the proposal. SPAC shareholders will be able to redeem their shares irrespective of how they cast their vote on a De-SPAC Transaction (as well as on the two other events described in paragraph 332).
331. Instead, to ensure that there are sufficient regulatory safeguards on the terms and valuation of the De-SPAC Transaction, we have strengthened the requirements on PIPE investments (see paragraphs 238 to 242 and 247 to 251).

IX. Share Redemptions

Election of redemption

332. The Exchange proposed to require a SPAC to provide holders of its shares with the opportunity to elect to redeem all or part of their shareholdings (for full compensation of the price at which such shares were issued at the SPAC's initial offering plus accrued interest) in the circumstances of a shareholder vote on: (a) a material change in a SPAC Promoter or the eligibility and/or suitability of a SPAC Promoter; (b) a De-SPAC Transaction; or (c) a proposal to extend the De-SPAC Announcement Deadline or the De-SPAC Transaction Deadline.¹³⁹

¹³⁹ Paragraph 352 of the Consultation Paper.

333. The Exchange proposed to prohibit a SPAC from placing a limit on the amount of shares a SPAC shareholder (alone or together with their associates) may redeem.¹⁴⁰

Responses Received

334. 91% of respondents who commented (68 respondents) supported the proposal to provide SPAC shareholders with a redemption option¹⁴¹, while 9% of those who commented (seven respondents) did not support it.
335. 88% of respondents who commented (61 respondents) agreed with our proposal to prohibit a SPAC from placing a limit on the redemption option¹⁴², while 12% of those who commented (eight respondents) did not support it.

Comments

Redemption amount

336. Some respondents did not agree that redemptions should be for “full compensation” of the pro rata amount of 100% of the SPAC’s IPO funds together with accrued interest, citing reasons similar to those referred to in paragraph 158 above and the following reasons:
- (a) this is not in line with the requirements in other jurisdictions, which allow for the deduction of some of the expenses (including operating expenditures) from the redemption amount;
 - (b) investors should not have a risk-free investment in relation to their participation in the SPAC’s initial offering, and it will be onerous for a SPAC Promoter to assume all the costs and risks of the SPAC.

Material change in a SPAC Promoter

337. Some respondents did not agree on providing shareholders with a right to redeem if there is a material change in the SPAC Promoter, as there is uncertainty on what constitutes a material change and such events are not always within the control of a SPAC.
338. One respondent suggested that the Exchange consider amending the requirement, such that a redemption right would not be triggered if a SPAC Promoter (who had committed a breach of laws, rules or regulations or who was involved in a matter bearing on its integrity and/or competence) does not control more than 50% of the Promoter Shares and leaves the SPAC within one month of such a breach.

Redemption limit

339. Some respondents stated that a SPAC should be permitted to impose a limit on the amount of shares a SPAC shareholder (alone or together with their associates) may redeem. Some of them suggested that the Exchange follow US and Singapore requirements and allow a redemption limit of no lower than 10% of the issued SPAC shares.

¹⁴⁰ Paragraph 353 of the Consultation Paper.

¹⁴¹ Question 48 in the Consultation Paper.

¹⁴² Question 49 in the Consultation Paper.

340. One respondent also commented that such limit should be permitted because, in the US, there have been cases in the past of large shareholders threatening redemption to force the SPAC Promoters to pay a premium for their shares (known as “greenmail”). Imposing a limit on redemption would deter such behaviour and they suggested the Exchange allow SPACs to impose a limit of at least 15% to be in line with US practice.

Exchange Conclusions

Redemption amount

341. The Exchange maintains the view that, given the importance of redemption as a shareholder protection measure for SPACs, shareholders who elect to redeem should receive an amount per SPAC Share which must be not less than the price at which the SPAC Shares were issued at the SPAC’s initial offering. This would ensure that a SPAC Promoter incurs all of the expenses to establish and maintain the SPAC, which should not be recoverable if a De-SPAC Transaction is not completed. As SPAC Promoters would regard this as their “capital at risk”, it should help ensure that the interests of SPAC Promoters are better aligned with SPAC shareholders who do not wish to redeem their shares.
342. We will not require interests accrued on the initial offering proceeds to be ring-fenced for distributions to SPAC shareholders in the event of redemption or liquidation (see paragraph 165). This should not affect SPAC shareholders receiving an amount per SPAC Share which must be not less than the price at which the SPAC Shares were issued at the SPAC’s initial offering.

Material change in a SPAC Promoter

343. Taking into account feedback from respondents, the Exchange has amended the Rules to clarify the events that constitute a material change (see paragraphs 128 to 135 and Rule 18B.32).

Redemption limit

344. As stated in our Consultation Paper, we believe that the risk of greenmail occurring in relation to the SPAC redemption option to be mitigated, in Hong Kong, by the application of the Takeovers Code. This would limit a SPAC’s ability to pay a premium for its shares to particular shareholders without making a general offer to shareholders as a whole.¹⁴³

Minor clarification amendments

345. We have amended the Rules to clarify that SPAC Shares that have been redeemed must be cancelled (Rule 18B.62), which is consistent with the position for repurchased shares under existing Listing Rules¹⁴⁴. Accordingly, redeemed SPAC Shares cannot be purchased.
346. In addition to complying with existing requirements regarding the announcement of voting results¹⁴⁵, a SPAC must also announce the amount of share redemption as soon as practicable after the general meeting.

¹⁴³ See paragraph 354 of the Consultation Paper.

¹⁴⁴ Rule 10.06(5).

¹⁴⁵ Rule 13.39(5).

347. In view of the above and taking into account feedback from the respondents, we will adopt the proposals with amendments.

Redemption procedures

348. The Exchange sets out the proposed redemption procedures in paragraphs 355 to 362 of the Consultation Paper, which are summarised as follows:-
- (a) a SPAC must provide a period for such elections starting on the date of the notice of the shareholder meeting to approve the relevant matter and ending on the date of the relevant general meeting;
 - (b) the notice of the shareholder meeting must inform shareholders that only shares voted against the relevant matter that is subject to the vote can be redeemed;
 - (c) a SPAC shareholder must be able to redeem part or all of the SPAC Shares that they voted against a relevant matter;
 - (d) a SPAC is prohibited from accepting elections to redeem unless those elections are accompanied by delivery of the relevant number of shares;
 - (e) redemptions must be subject to completion of the De-SPAC Transaction;
 - (f) the redemption and the return of funds to redeeming SPAC shareholders must be completed within five business days of the completion of the De-SPAC Transaction; and
 - (g) in the case of a shareholder vote on a material change in the SPAC Promoter or a proposal to extend a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline, redemptions must be completed within one month of the date of the relevant general meeting.
349. 93% of respondents who commented (63 respondents) supported these proposals¹⁴⁶, while 7% of those who commented (five respondents) did not support it.

Exchange Conclusions

350. In light of our revised redemption mechanism set out in paragraph 330, the redemption procedures referred to in paragraphs 348 (b) and (c) have been modified such that: (a) a SPAC shareholder must be able to redeem part or all of the SPAC Shares (irrespective of how they cast their votes on the De-SPAC Transaction); and (b) the notice of the relevant general meeting must inform the SPAC shareholders of the opportunity to elect to exercise their redemption right.

¹⁴⁶ Question 50 in the Consultation Paper.

351. In addition, we have made some minor clarification amendments to the redemption procedures to state that the period for the election of redemption must end as at the date and time of commencement of the relevant general meeting. We have also clarified that with respect to redemption in relation to a shareholder vote on the continuation of the SPAC following a material change or extension of deadlines, the redemptions are subject to the approval of the relevant resolution. This is because if the requisite approvals are not obtained, the SPAC will be required to return to all SPAC shareholders the funds it raised at its initial offering (see Rule 18B.74).
352. In view of the support from respondents, we will adopt our proposals with modifications as referred to in paragraphs 350 and 351 above (see Rules 18B.58 and 18B.59).

X. Forward Looking Information

353. The Exchange proposed requiring SPACs to comply with our existing requirements with regards to forward looking statements included in a Listing Document produced for a De-SPAC Transaction.¹⁴⁷

Responses Received

354. 83% of respondents who commented (58 respondents) supported this proposal¹⁴⁸, while 17% of those who commented (12 respondents).

Comments

355. A majority of respondents agreed that there is no valid case for lowering the existing requirements under the Listing Rules on forward looking statements for SPAC.
356. A number of respondents disagreed as they stated that:
- (a) De-SPAC Targets are often at an early stage of their development with a financial track record that is not reflective of their growth potential. Therefore profit forecasts covering a period that is longer than that normally permitted are necessary for investors to evaluate their future prospects;
 - (b) in practice, this would limit profit forecasts to a time frame that is much shorter than is normally seen in other jurisdictions for De-SPAC Transactions, and may accordingly create disparities to the competitive disadvantage of the Hong Kong market;
 - (c) the requirement to present forward-looking statements with the support of reports from the reporting accountant and sponsor may increase the length of time and transaction costs related to securing shareholder approval for De-SPAC Transactions. In practice, sponsors and reporting accountants would be reluctant to prepare a profit forecast if they are required to comply with the existing profit forecast requirements under the Listing Rules, due to the liability risk; and
 - (d) the lack of profit forecast in the listing document would limit the information that investors are able to obtain on the Successor Company's future development.

¹⁴⁷ Paragraph 372 of the Consultation Paper.

¹⁴⁸ Question 51 in the Consultation Paper.

357. Some of these opposing respondents suggested requiring more disclosure on the basis and assumptions of the profit forecasts instead, and the inclusion of warning statements for the benefit of investors who rely on them.

PIPE marketing materials

358. On a related issue, some respondents asked the Exchange to clarify the restrictions imposed on the information (including profit forecasts) used to market a De-SPAC Transaction to PIPE investors.

Exchange Conclusions

359. As previously stated in the Consultation Paper, SPACs are cash companies that carry the risk that they will be used as a means to circumvent new listing track record requirements for the purpose of listing sub-standard businesses and/or assets (see paragraph 133 of the Consultation Paper).
360. There is also a heightened risk that a De-SPAC Target may be deliberately over-valued to meet the minimum market capitalisation requirements for a new listing (see paragraphs 134 and 135 of the Consultation Paper). One way in which this could be attempted would be through the inclusion of overly optimistic forward looking statements in the Listing Document for a De-SPAC Transaction.
361. In terms of market competitiveness, as mentioned in the Consultation Paper¹⁴⁹, the SEC disputed commentators' claim that SPACs could use the "safe harbor" provisions of the Private Securities Litigation Act to protect themselves against liability for inaccuracies in projections and other forward-looking statements. On 16 November 2021, the US House Committee on Financial Services passed a proposal to amend the securities laws to exclude all SPACs from the safe harbor for forward-looking statements¹⁵⁰.
362. We therefore do not see a valid case for lowering our requirements on forward looking statements for SPACs and continue to believe they should be formulated on a reasonable basis and verified by independent persons to the same standard as that required for an IPO.
363. In view of the above and taking into account feedback from the respondents, we will adopt the proposals.

PIPE marketing materials

364. With regards to the information that SPACs use to market a De-SPAC Transaction to PIPE investors, our approach would be the same as to the information used in marketing to a pre-IPO investor (on the basis that the marketing materials are given to PIPE investors before the submission of an application for listing). The Exchange would like to highlight the following existing requirements:
- (a) all information provided to the Exchange with the listing application of the Successor Company must be accurate and complete in all material respects; and

¹⁴⁹ See paragraphs 59 and 363 of the Consultation Paper.

¹⁵⁰ [H.R. 5910](#), the US House Committee on Financial Services.

- (b) the listing document submitted to the Exchange for the purposes of the De-SPAC Transaction must contain information required to enable an investor to make a fully informed decision of the Successor Company's financial position and prospects.
365. Also, as the information used to market the transaction to PIPE investors may constitute Inside Information, SPACs will need to maintain confidentiality and comply with the Inside Information provisions.

XI. Open Market in Successor Company's Shares

366. The Exchange proposed that a Successor Company must ensure that its shares are held by at least 100 shareholders (rather than the 300 shareholders normally required) to ensure an adequate spread of holders in its shares.¹⁵¹
367. The Exchange also proposed that a Successor Company must meet the current requirements that (a) at least 25% of its total number of issued shares must at all times be held by the public and (b) not more than 50% of its securities in public hands can be beneficially owned by the three largest public shareholders, as at the date of the Successor Company's listing.¹⁵²
368. The Exchange sought views on whether the proposed measures were sufficient to ensure an open market in the securities of a Successor Company, or whether there were any other measures that the Exchange should use to help ensure an open market.¹⁵³

Responses Received

369. 85% of respondents who commented (58 respondents) supported our shareholder distribution proposal¹⁵⁴, while 15% of those who commented (10 respondents) did not support it.
370. 90% of respondents who commented (62 respondents) supported our proposal that Successor Companies meet other current open market requirements¹⁵⁵, while 10% of those who commented (seven respondents) did not support it.
371. 89% of respondents who commented (57 respondents) believed that the proposed measures were sufficient¹⁵⁶, while 11% of those who commented (seven respondents) proposed other measures.

Comments

372. A number of respondents thought that the same open market requirement (i.e. 300 shareholders) should apply as the trading in the securities of the Successor Company would no longer be limited to Professional Investors.

¹⁵¹ Paragraph 380 of the Consultation Paper.

¹⁵² Paragraph 382 of the Consultation Paper.

¹⁵³ Paragraph 384 of the Consultation Paper.

¹⁵⁴ Question 52 in the Consultation Paper.

¹⁵⁵ Question 53 in the Consultation Paper.

¹⁵⁶ Question 54 in the Consultation Paper.

373. Some respondents commented that it would be difficult for a SPAC to meet the public float requirement, as there is typically no public offering mechanism incorporated into a De-SPAC Transaction.
374. Respondents also asked the Exchange to note that the number of shareholders at the time of completion of the De-SPAC Transaction will fluctuate due to: (a) trading of SPAC Shares between the De-SPAC Announcement and the completion of the transaction; (b) redemptions; and (c) the issuance of shares to PIPE investors. As a Successor Company has no control on the number of shareholders resulting from the first two events, one respondent suggested allowing a transitional period of up to six to twelve months after completion of the De-SPAC Transaction for the Successor Company to meet the open market requirement.
375. One respondent objected to the requirement that a single PIPE investor take up at least 5% of the shares of the Successor Company. They stated that this would make it difficult for a Successor Company to comply with the requirement that not more than 50% of its securities in public hands can be beneficially owned by the three largest public shareholders.

Exchange Conclusions

376. As mentioned by some respondents, a typical De-SPAC Transaction does not include a public offer. Consequently, it may not be feasible for a Successor Company to meet the normal requirement for its shares to be distributed to at least 300 shareholders at its initial listing. The Exchange believes that a 100 shareholder distribution requirement to be more attainable and also sufficient to ensure an open market in the shares of a Successor Company.
377. The Exchange notes that, as there is no public offering mechanism, a Successor Company would not have full control over the number of its shareholders at the time of its listing. However, the Exchange believes that higher quality SPACs should have less difficulty in meeting the 100 shareholder distribution requirement.
378. The definition of the “public” for the purposes of the public float is different to its definition in the context of a public offer. For the purpose of a public float, we require that a shareholder is not a core connected person to qualify as a “public” shareholder¹⁵⁷. As PIPE investors must meet IFA requirements, they are likely to meet this definition and enable a Successor Company to meet the public float requirement.
379. In addition to the shareholders it will obtain as a result of the PIPE, a Successor Company is also likely to inherit independent shareholders who choose not to redeem their SPAC shares. Consequently, we do not believe that it will be difficult for a Successor Company to meet open market requirements and so we do not believe it will be necessary to grant a transitional period for Successor Companies to meet the open market requirement.

¹⁵⁷ See Rule 8.24.

380. We have revised the sophisticated investor requirement to require at least 50% of the independent PIPE investment come from at least three independent sophisticated investors (see paragraph 248 above) and will no longer require a single PIPE investor to take up 5% of the shares of the Successor Company. In addition, given the requirement that all PIPE investors must be Professional Investors (see paragraph 241 above), at the time of listing of a Successor Company, the open market requirement is amended to 100 Professional Investors.
381. Taking into account feedback from the respondents, we will adopt the proposals with amendment referred to in paragraph 380 above (see Rule 18B.65).

XII. Lock-up Periods

SPAC Promoter Lock-up

382. The Exchange proposed that SPAC Promoters be subject to a restriction on the disposal of their holdings in the Successor Company (including Promoter Shares and Promoter Warrants) after the completion of a De-SPAC Transaction.¹⁵⁸
383. In respect of a lock-up period on SPAC Promoters, the Exchange proposed that¹⁵⁹:
- (a) the Exchange should impose a lock-up on disposals, by the SPAC Promoter, of its holdings in the Successor Company during the period ending 12 months from the date of the completion of a De-SPAC Transaction; and
 - (b) Promoter Warrants should not be exercisable during the period ending 12 months from the date of the completion of a De-SPAC Transaction.

Responses Received

384. 94% of respondents who commented (67 respondents) supported the proposal that SPAC Promoters should be subject to a lock-up¹⁶⁰, while 6% of those who commented (four respondents) did not support it.
385. Of the respondents that supported the proposal that SPAC Promoters should be subject to a lock-up, 84% of respondents who commented (56 respondents) supported the proposed lock-up periods¹⁶¹, while 16% of those who commented (11 respondents) did not support these.

¹⁵⁸ Paragraph 391 of the Consultation Paper.

¹⁵⁹ Paragraph 392 of the Consultation Paper.

¹⁶⁰ Question 55 in the Consultation Paper.

¹⁶¹ Question 56 in the Consultation Paper.

Comments

386. Some respondents commented that the proposed lock-up period for SPAC Promoters is unfair as a 12 month lock-up is more stringent than that imposed on controlling shareholders (see paragraph 393 below) following a De-SPAC Transaction or a traditional IPO. A controlling shareholder is permitted to dispose of their shareholdings after a six month lock-up as long as this does not result in them no longer being a controlling shareholder. Any lock-up period imposed on a SPAC Promoter under the Listing Rules should be the same as, or for a shorter period than, that for a controlling shareholder, as the controlling shareholder of the Successor Company should be more important to the success of the Successor Company going forward.
387. Some respondents suggested that a mandatory six-month lock-up period for SPAC Promoters should be sufficient, instead of a 12-month period. Additional lock-up requirements should be subject to commercial negotiations between involved parties.
388. Some respondents commented that as SPAC Promoters are already subject to lock-up restrictions on the shares issued upon exercise of any Promoter Warrants, a further restriction on when such Promoter Warrants may be exercised following completion of a De-SPAC Transaction is unnecessary. They suggested the Promoter Warrants should be exercisable immediately after completion of a De-SPAC Transaction, to be in line with the SPAC regime in other jurisdictions such as the US and Singapore.

Exchange Conclusions

389. The Exchange considers the proposed lock-up periods (see paragraph 383) to be necessary as it is an important safeguard to help verify the information presented to investors in the Listing Document regarding the valuation of the De-SPAC Target and the Successor Company. We also believe the lock-up period is consistent with market practice in the US, where securities held by SPAC Promoters and the controlling shareholder are typically subject to a commercially negotiated lock-up for a period of up to 12 months upon completion of the De-SPAC Transaction.
390. As a De-SPAC Transaction is negotiated between a small group of counterparties and SPAC Promoters' interests are not fully aligned with those of ordinary shareholders (as they receive Promoter Shares at nominal value and in some cases, additional earn-out rights), a longer lock-up period imposed on SPAC Promoters compared to controlling shareholders is required to help mitigate the misalignment of their interests with those of other shareholders.
391. We have also clarified in Rule 18B.66 the scope of the Successor Company's securities beneficially owned by the SPAC Promoter that should be subject to the lock-up (i.e. include all Successor Company securities that result from the issue, conversion or exercise of Promoter Shares and Promoter Warrants and any earn-out rights).
392. In view of the above and the majority support from respondents, we will adopt the proposals.

Controlling Shareholder Lock-up

393. The Exchange proposed that a controlling shareholder of a Successor Company be subject to a restriction on the disposal of their shareholdings (and holdings of other securities, if applicable) in the Successor Company following its listing and that these should follow current requirements of the Rules on the disposal of shares by controlling shareholders following a new listing.¹⁶²
394. 96% of respondents who commented (68 respondents) supported the proposal that a controlling shareholder of a Successor Company be subject to a lock-up¹⁶³, while 4% of those who commented (three respondents) did not support it.
395. Of the respondents that supported this proposal, 99% of respondents who commented (66 respondents) believed that these restrictions should follow the current requirements of the Rules¹⁶⁴, while 1% of those who commented (one respondent) did not support the proposal.

Exchange Conclusions

396. In view of the majority support from respondents, we will adopt the proposals.

¹⁶² Paragraphs 393 to 394 of the Consultation Paper.

¹⁶³ Question 57 in the Consultation Paper.

¹⁶⁴ Question 58 in the Consultation Paper.

(E) APPLICATION OF THE TAKEOVERS CODE

I. Prior to De-SPAC Transaction Completion

397. The Takeovers Executive proposed that the Takeovers Code should apply to a SPAC prior to the completion of a De-SPAC Transaction.¹⁶⁵

Responses Received

398. 93% of respondents who commented (64 respondents) supported this proposal¹⁶⁶, while 7% of those who commented (five respondents) did not support it.

Comments

399. Of those respondents who did not support this proposal, one commented that, as the proposed SPAC regime already limits the ability of the SPAC Promoters to transfer their shares and allow investors to redeem their investments, there was no control issue that required regulation by the Takeovers Code.

400. One respondent considered appropriate lock-ups for SPAC Promoters sufficient, while another queried whether the application of the Takeovers Code to a SPAC prior to the completion of a De-SPAC Transaction would conflict with the proposed Rule 18B.29 of the Listing Rules which governs material changes to SPAC Promoters. Two respondents who did not support the proposal did not provide any reasons for their views.

401. While noting the overall support for the proposal, some respondents sought elaboration from the Takeovers Executive on certain matters raised in the Consultation Paper, such as what constitutes a change of control in a SPAC context and whether additional conditions should be included.

Conclusions

402. The Takeovers Executive is pleased to note that the proposal is overwhelmingly supported by the respondents.

403. One of the main reasons underpinning the proposal is to ensure there is an orderly market during a change of control prior to completion of a De-SPAC Transaction, and that shareholders will be afforded the same protection under the Takeovers Code as with any other Hong Kong public company.

404. The Takeovers Executive disagrees with the suggestion that transfer restrictions imposed on SPAC Promoters afford sufficient protection to justify the disapplication of the Takeovers Code in its entirety. Further, the Takeovers Executive does not consider that the application of the Takeovers Code prior to completion of a De-SPAC Transaction would necessarily conflict with the proposed Rule 18B.29 of the Listing Rules.

¹⁶⁵ Paragraph 403 of the Consultation Paper.

¹⁶⁶ Question 59 in the Consultation Paper.

405. As a SPAC Promoter is limited to holding no more than 20% of the voting rights of a SPAC prior to the completion of a De-SPAC Transaction, a change of control of the SPAC Promoter is unlikely to trigger a mandatory general offer under the Takeovers Code. In rare circumstances where a SPAC Promoter and its concert parties hold 30% or more of the voting rights in a SPAC, the Takeovers Executive will consider on a case by case basis whether such change of control in the SPAC Promoter will have implications under the Takeovers Code (including the application of the chain principle under Note 8 to Rule 26.1 of the Takeovers Code).
406. In addition, there could be a situation where a third party simply acquires SPAC Shares such that it holds (and aggregated with parties acting in concert with it) 30% or more of the voting rights of a SPAC and in such case, SPAC Investors should be afforded the usual protections under the Takeovers Code.
407. As explained in the Consultation Paper, the Takeovers Panel and the Takeovers Executive consider a period of up to 36 months without the application of the Takeovers Code unsatisfactory. Without the application of the Takeovers Code, offers would be unregulated, leading to potential risks of a disorderly market.
408. On the request for clarification regarding the meaning of change of control in the context of SPACs, the Takeovers Code defines control by reference to voting rights in a company. The Takeovers Executive does not consider it appropriate to deviate or expand from this fundamental principle at this juncture. A change of control of SPAC Promoters will be dealt with under the Listing Rules framework for SPACs and the Takeovers Executive does not consider it necessary to redefine the meaning of “control” solely for SPACs.
409. Taking into account feedback from the respondents, we will adopt the proposal.

II. The De-SPAC Transaction

410. The Takeovers Executive proposed to normally waive the application of Rule 26.1 of the Takeovers Code in relation to a De-SPAC Transaction, the completion of which would result in the owner of the De-SPAC Target obtaining 30% or more of the voting rights in a Successor Company, subject to the exceptions and conditions set out in the Consultation Paper.¹⁶⁷

Responses Received

411. 99% of respondents who commented (69 respondents) supported this proposal¹⁶⁸, while 1% of those who commented (one respondent) did not support it.

¹⁶⁷ Paragraphs 411 to 415 of the Consultation Paper.

¹⁶⁸ Question 60 in the Consultation Paper.

Comments

412. The Takeovers Executive is pleased to note the nearly unanimous support for this proposal. Most respondents agreed that SPAC Investors would, at the time of investing, have anticipated a De-SPAC Transaction that would lead to a change of control, which is the very nature of a SPAC. This justifies the granting of a waiver from the application of Rule 26.1 of the Takeovers Code for the De-SPAC Transaction as it would otherwise be unduly burdensome on the owner of the De-SPAC Target to comply.
413. One respondent commented that there was a lack of clarity on when a waiver would be granted and how the factors set out in paragraph 414 of the Consultation Paper would be applied.
414. Another respondent sought clarification on how multiple shareholders of a De-SPAC Target would be treated given the Consultation Paper and the relevant question mentioned “owner” rather than “owners” of the De-SPAC Target becoming the new controlling shareholder of the Successor Company. It also requested clarification on how the other provisions of the Takeovers Code would apply during a De-SPAC Transaction if the waiver was sought and granted. This respondent also suggested that the granting of the waiver be codified as a new note to Rule 26.1 to bring greater clarity and certainty to the market.
415. The only respondent who did not support the proposal simply remarked that no exception should be given to SPACs, without further elaboration.

Conclusions

416. It is well understood by the market that waivers under Rule 26.1 of the Takeovers Code are concessions that are granted in a comparatively narrow set of circumstances and not as of right. Each application is considered on a case by case basis and determined on its own unique facts and circumstances. As the Takeovers Code is framed in non-technical language, the Takeovers Executive consistently adopts a principle-based approach in handling applications. The application for waiver from Rule 26.1 in relation to a De-SPAC Transaction would be no different from other applications received by the Takeovers Executive. On this basis, the Takeovers Executive does not consider it appropriate to codify an automatic waiver for De-SPAC Transactions in the body of the Takeovers Code.
417. As set out in paragraph 414 of the Consultation Paper, the factors that the Takeovers Executive would take into account when considering the waiver application include: (a) the holdings of the owner(s) of the De-SPAC Target and parties acting in concert with it/them in the shares of the SPAC and dealings by them; and (b) any relationship(s) between the owner(s) of the De-SPAC Target and the SPAC Promoters, and parties acting in concert with any of them.
418. Of particular concern to the Takeovers Executive are situations where the owner of a De-SPAC Target or parties acting in concert with it acquire SPAC Shares prior to or during the course of the De-SPAC Transaction to influence the outcome of the approval of the De-SPAC Transaction. The existence of parties acting in concert will not, in itself, cause a waiver not to be granted. The concern arises where such concert parties may influence the outcome of the approval of the De-SPAC Transaction by voting at the relevant shareholders’ meeting.

419. On the issue of whether multiple owners of a De-SPAC Target are acting in concert, the usual considerations for concert party analysis (such as the relationship between parties and their history of cooperation) will apply. However, whether the De-SPAC Target is owned by one or multiple persons should not have a material impact on whether a waiver from the application of Rule 26.1 should be granted.
420. Once a waiver is granted, no general offer is expected to be made by the owner of the De-SPAC Target and no offer period will commence. Accordingly, the Takeovers Code will not apply to the De-SPAC Transaction. The position is similar to when technical waivers of Rule 26.1 are granted.
421. Concurrent with the publication of this paper, the Takeovers Executive has, after consulting the Takeovers Panel, published a new Practice Note 23 with respect to waivers of the mandatory general offer obligation under Rule 26.1 of the Takeovers Code in relation to De-SPAC Transactions. Further details relating to the application process for such waiver are contained in this Practice Note.
422. Taking into account feedback from the respondents, we will adopt the proposals.

(F) DE-LISTING CONDITIONS

I. Deadlines

423. The Exchange proposed to set a time limit of 24 months for the publication of a De-SPAC Announcement and 36 months for the completion of a De-SPAC Transaction.¹⁶⁹
424. The Exchange proposed to suspend a SPAC's listing if it failed to meet either the De-SPAC Announcement Deadline or the De-SPAC Transaction Deadline.¹⁷⁰
425. The Exchange proposed that SPAC should be able to make a request to the Exchange for an extension of either a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline if it has obtained the approval of its shareholders for the extension at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting).¹⁷¹

Responses Received

426. 91% of respondents who commented (67 respondents) supported the proposed time limits for a De-SPAC Announcement and De-SPAC Transaction¹⁷², while 9% of those who commented (seven respondents) did not support it.
427. 95% of respondents who commented (69 respondents) supported the proposal to suspend a SPAC's listing for failure to meet these deadlines¹⁷³, while 5% of those who commented (four respondents) did not support it.
428. 97% of respondents who commented (72 respondents) supported the proposals regarding requests for the extension of the proposed deadlines¹⁷⁴, while 3% of those who commented (two respondents) did not support it.

Comments

429. Some respondents commented it is too stringent to require automatic suspension for failure to meet the deadlines. One respondent suggested that rather than an automatic suspension, the Exchange should retain its discretion not to suspend trading in the SPAC's shares, so it could take into account the reasons for the SPAC's failure to meet the deadlines. It is possible that, in certain limited circumstances (e.g. where the SPAC has already convened a shareholder meeting to obtain approval for the De-SPAC Transaction) a suspension would not be necessary.

¹⁶⁹ Paragraph 423 of the Consultation Paper.

¹⁷⁰ Paragraph 424 of the Consultation Paper.

¹⁷¹ Paragraphs 426 to 427 of the Consultation Paper.

¹⁷² Question 61 in the Consultation Paper.

¹⁷³ Question 62 in the Consultation Paper.

¹⁷⁴ Question 63 in the Consultation Paper.

Exchange Conclusions

430. Taking into account feedback from the respondents we will adopt the proposals, with minor clarification amendment to the Rules (see Rule 18B.73) to provide the Exchange with the discretion not to impose a suspension based on the individual circumstances of a case.

II. Liquidation and De-Listing

431. The Exchange proposed that, if a SPAC fails to (a) announce/complete a De-SPAC Transaction within the deadlines that apply (including any extensions granted to those deadlines; or (b) obtain the requisite shareholder approval for a material change in SPAC Promoters within one month of the material change, the Exchange would suspend the trading of the SPAC's securities and the SPAC must, within one month of such suspension, return to SPAC shareholders (excluding, for the avoidance of doubt, holders of the Promoter Shares), on a pro rata basis, 100% of the funds it raised at its initial offering, at the price at which its shares were issued, plus accrued interest.¹⁷⁵
432. The Exchange proposed that (a) a SPAC must liquidate after returning its funds to its shareholders and (b) the Exchange should automatically cancel the listing of a SPAC upon completion of its liquidation.

Responses Received

433. 93% of respondents who commented (69 respondents) supported the proposal referred to in paragraph 431¹⁷⁶, while 7% of those who commented (five respondents) did not support it.
434. Of the respondents who supported such proposal, 97% of respondents who commented (67 respondents) also supported the proposal referred to in paragraph 432¹⁷⁷, while 3% of those who commented (two respondents) did not support this proposal.

Comments

435. Respondents who objected to the proposal that a material change in SPAC Promoter status should be a redemption event also objected to our proposals on the liquidation and de-listing of a SPAC following a failure to obtain shareholder approval for the continuation of the SPAC following such an event.
436. Some respondents commented that instead of requiring 100% return of funds plus interest, in line with the US, UK and Singapore, the funds returned shall be net of taxes and expenses because otherwise the SPAC Promoters will bear any risk of shortfall.
437. Some respondents suggested that the delisting of a SPAC should take place before liquidation, given the length of time it is likely to take a SPAC to liquidate.

¹⁷⁵ Paragraphs 435 of the Consultation Paper.

¹⁷⁶ Question 64 in the Consultation Paper.

¹⁷⁷ Paragraph 436 and Question 65 in the Consultation Paper.

Exchange Conclusions

438. As mentioned in our conclusions in the section headed “Share Redemptions” above (paragraph 341), a SPAC Promoter shall incur all of the expenses to maintain the SPAC and for the avoidance of doubt, this includes liquidation expenses. This should be consistent with the practice in the US, as we note that the use of proceeds from the issuance of the Promoter Warrants often include liquidation expenses.
439. We agree with comments from respondents that the delisting of a SPAC should take place before liquidation and have clarified this in the Rules (see Rule 18B.74 and consequential changes in Rule 18B.75). Taking into account feedback from the respondents, we have adopted our proposals subject to this amendment.

(G) CONSEQUENTIAL MODIFICATIONS AND EXEMPTIONS

Consequential exemptions

440. The Exchange proposed to exempt SPACs from the following requirements (or impose modified requirements) on the basis that they are newly-formed cash companies with no business operations (or track record of business operations) whose purpose is to conduct a De-SPAC Transaction¹⁷⁸:
- (a) with regard to an IPO Sponsor's conduct of due diligence, Paragraph 17 of the SFC's Code of Conduct and Practice Note 21 of the Listing Rules should be complied with by an IPO Sponsor to the extent applicable;
 - (b) the profit, revenue, cash flow, and track record requirements for a new listing¹⁷⁹;
 - (c) the requirement that the share capital of a new applicant must not include shares of which the proposed voting power does not bear a reasonable relationship to the equity interest of such shares.¹⁸⁰ This is only to the extent that a SPAC is permitted to issue Promoter Shares at a nominal value to a SPAC Promoter that carry the right to vote at general meetings and may carry a special right to nominate and/or appoint persons to the board of a SPAC;
 - (d) the inclusion of a history of financial results in the accountant's report of a Listing Document produced by a new applicant¹⁸¹;
 - (e) the carrying out, directly or indirectly, of a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of an issuer's securities¹⁸²;
 - (f) the suitability for listing of a group with assets consisting wholly or substantially of cash and/or short-term investments¹⁸³;
 - (g) the suitability for listing of cash companies¹⁸⁴; and
 - (h) the prohibition, in the period of 12 months from the date of listing, of 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 listed issuer as described in the Listing Document issued at the time of its application for listing¹⁸⁵.

¹⁷⁸ Paragraph 437 of the Consultation Paper.

¹⁷⁹ Rules 8.05 and 8.09.

¹⁸⁰ Rule 8.11.

¹⁸¹ Rule 4.04(1).

¹⁸² Rules 13.24 and 6.01(3).

¹⁸³ Rule 8.05C.

¹⁸⁴ Rule 14.82.

¹⁸⁵ Rules 14.89 and 14.90.

Responses Received

441. 97% of respondents who commented (69 respondents) supported this proposal¹⁸⁶, 3% of those who commented (two respondents) did not support it.

Financial Information and Accounting Matters

442. We received comments from stakeholders that a SPAC should not be exempted from including a history of financial results in the accountant's report of their Listing Document produced as a new applicant¹⁸⁷. They stated that this would not be in line with US practice as such results are normally included in the SEC filings which SPACs produce for their listings there.
443. Due to the short period that has elapsed from their incorporation, the reporting period for this history is typically from the date of incorporation to the date on which Promoter Shares are issued. The financial results for this period may include quite extensive disclosure related to matters including: the accounting of the Promoter Shares; deferred offering costs; related party transactions and going concern considerations.
444. The notes to the financial statements may include any proposed offerings, the expected PIPE and the expected accounting policies for the related items (e.g. warrant liabilities). The financial statements also include useful information related to the accounting policies adopted or to be adopted.
445. Some respondents sought clarification as to whether the pro forma statement of adjusted net tangible assets/ liabilities and statement of working capital sufficiency and the corresponding reporting requirements under the Listing Rules are required for the purpose of the SPAC listing documents.

Clarification

446. One respondent suggested to make clear that Rules from which a SPAC is exempted (e.g. Rules 14.82, 13.24, 6.01(3)) should become applicable after completion of the De-SPAC Transaction.

Exchange Conclusions

Financial Information and Accounting Matters

447. We agree that SPACs should not be exempted from including a history of financial results in the accountant's report of their Listing Document produced as a new applicant due to the reasons stated above (see paragraphs 442 to 444). Accordingly, we have not adopted the proposal to provide such exemption.
448. We have clarified in the Guidance Letter on SPACs (see Appendix V) on the requirements for a SPAC's pro forma statement of adjusted net tangible assets/liabilities, and statement of working capital sufficiency.

¹⁸⁶ Question 66 in the Consultation Paper.

¹⁸⁷ Rule 4.04(1).

Accounting treatment of shares and warrants issued by SPACs

449. As noted from the recent developments in the US, the accounting implications for warrants and shares issued by SPACs would require careful consideration of specific facts and circumstances.
450. SPACs with, or seeking, a listing on the Exchange are advised to consult their reporting accountants (and other professional advisers, as appropriate) to evaluate the accounting implications for complex areas arising from SPAC transactions (such as the issuance of shares and warrants) with reference to applicable financial reporting standards.
451. Significant accounting policies and judgements for SPAC transactions and material events that occurred subsequent to the balance sheet date, which have a significant effect on the amounts recognised in the financial statements and/or are relevant to an understanding of the financial information included in the SPAC's listing document, should be disclosed in the accountants' report as required under the applicable accounting standards. In particular, in the context of initial listing of SPAC, those disclosures should also cover accounting policies for transactions entered into subsequent to the balance sheet date.

Clarification

452. We have added a clarification in Rule 18B.76 to make clear that the relevant Rule exemptions will only apply until the completion of a De-SPAC Transaction.
453. Taking into account feedback from the respondents, we will adopt the proposal, with minor amendments referred to in paragraphs 447 and 452 above.

IPO Sponsor's appointment

454. The Exchange proposed to require that a listing application for or on behalf of a SPAC be submitted no earlier than one month (rather than two months ordinarily required) after the date of the IPO Sponsor's formal appointment.¹⁸⁸

Responses Received

455. 99% of respondents who commented (66 respondents) supported this proposal¹⁸⁹, while 1% of those who commented (one respondent) did not support it.

Comments

456. Some respondents asked the Exchange to clarify whether it would be possible for the following persons to also act as an independent IPO sponsor to the Successor Company:
- (a) a financial adviser of the De-SPAC Target in De-SPAC Transaction negotiations;
 - (b) the IPO Sponsor to the SPAC's initial offering;
 - (c) the underwriter of the PIPE investment; and
 - (d) the IPO Sponsor to a De-SPAC Target if it had already applied to list via a traditional IPO but wished to re-file to list via a De-SPAC Transaction.

¹⁸⁸ Paragraph 438 of the Consultation Paper.

¹⁸⁹ Question 67 in the Consultation Paper.

Exchange Conclusions

457. As stated in our guidance¹⁹⁰, the Exchange would consider, on a case-by-case basis, whether a proposed sponsor met the independence requirements of our Rules¹⁹¹. The factors that an IPO Sponsor and the Successor Company applicant should consider when determining whether the requirements of our Rules are satisfied include, but are not limited to:
- (a) the nature of the relationship among the parties involved;
 - (b) when the business relationship in question commenced;
 - (c) whether the parties in question were involved, directly or indirectly, in sourcing the engagement; and
 - (d) the nature and materiality of other relevant business relationships.
458. Of particular note is the statement in the Rules that a firm that has a “current business relationship” with a new applicant or the substantial shareholder of a new applicant will not be considered independent and so cannot act as an independent sponsor for the Successor Company.
459. Where a firm has been appointed as a sponsor by the SPAC for its initial listing, the Exchange is of the view that such firm could act as an independent sponsor for the Successor Company as long as there is no “current business relationship” at the time of the De-SPAC Transaction, and the sponsor met all other independence requirements.
460. In the circumstance where a firm has been appointed as an independent sponsor by a De-SPAC Target for a traditional IPO which then subsequently files an application to list via a De-SPAC Transaction instead, the Exchange is of the view that the IPO Sponsor could act as an independent sponsor for the Successor Company. This is on the basis that this would fall within the exemption under Rule 3A.07(9) that the relationship arises under the sponsor’s engagement to provide sponsorship services. In such case, the Exchange would take into account the time of the appointment of the IPO Sponsor for the traditional IPO when considering whether the minimum engagement period of two months has been satisfied for the Successor Company’s listing application.¹⁹²
461. In view of the majority support, we will adopt the proposals.

¹⁹⁰ See Guidance Letter HKEX-GL99-18.

¹⁹¹ See Rule 3A.07(9).

¹⁹² The IPO Sponsor must be formally engaged by the Successor Company for the purpose of its listing application.

Other Disclosure Requirements

462. The Exchange sought feedback on whether SPACs should be exempted from any Listing Rule disclosure requirement prior to a De-SPAC Transaction or whether those requirements should be modified for SPACs, given that the nature of a SPAC means that it does not have any business operations.¹⁹³

Responses Received

463. 89% of respondents who commented (63 respondents) supported this proposal¹⁹⁴, while 11% of those who commented (eight respondents) did not support it.
464. Most respondents suggested appropriate exemptions and modifications apply to SPACs, particularly on the requirements of Appendix 16 to the Listing Rules, as they do not have any business operations and are vehicles dedicated solely to completing a De-SPAC Transaction. Requiring SPACs to comply with all disclosure requirements would yield not much more than boilerplate disclosures which would not be informative for investors.
465. Some respondents suggested exempting SPACs from corporate governance and ESG reporting requirements in order to reduce the compliance costs for the SPAC. They were of the view that this would not materially disadvantage investors since SPACs would not have any business operations and many of the disclosure requirements would not be applicable or relevant.
466. A number of respondents commented that corporate governance disclosures would still be necessary as a SPAC's directors would have fiduciary obligations to shareholders and a responsibility to act in the interests of shareholders as a whole. Some respondents quoted the following as examples for matters which a SPAC should still be required to disclose:
- (a) SPAC Promoters may use related parties for operating expenses, which should be disclosed as part of a SPAC's corporate governance reports;
 - (b) the entity's policies on board governance and diversity. This would include disclosure on gender composition and board performance, and training and remuneration during the year; and
 - (c) anti-corruption related matters.
467. One respondent suggested that SPACs be subject to periodic reports on the status of the cash / cash equivalents held in the escrow account representing the funds it raised from its initial listing.

Exchange Conclusions

468. As a SPAC does not have any business operations prior to a De-SPAC Transaction, we do not anticipate the financial disclosure requirements under the Listing Rules would impose undue burden and may risk material omissions in some circumstances. Therefore, we do not propose any exemptions on financial disclosure requirements for SPACs prior to a De-SPAC Transaction.

¹⁹³ Paragraph 439 of the Consultation Paper.

¹⁹⁴ Question 68 in the Consultation Paper.

469. As noted by some respondents, corporate governance is important to mitigate the risk of a potential conflict or misalignment of interests in a SPAC’s governance structure. Therefore, we will not exempt SPACs from the requirement to issue corporate governance reports required under Appendix 14 of the Listing Rules.
470. We will also not exempt SPACs from ESG requirements. Although a SPAC does not have business operations, its activities may still have impact on environment and social matters. This is consistent with our approach for listed investment companies, which are also not operating companies.
471. We also note that there are no specific exemptions to SPACs from disclosures in respect of corporate governance and ESG in the US, UK and Singapore.
472. With respect to the comment described in paragraph 467, we will not impose additional periodic reporting requirements, but SPACs would be required to publish interim and annual financial statements which would report on the status of the funds held in escrow. A SPAC’s annual financial statements must be audited.

Definition of a SPAC Promoter

473. In the US, SPAC Promoters are generally referred to as “founders” or “sponsors” of SPACs but are not necessarily involved in a SPAC’s day-to-day management. The definitions of SPAC Promoters in the SPAC rules in UK¹⁹⁵ and Singapore¹⁹⁶ also reflect this practice. So, we have amended the definition of a SPAC Promoter in the Rules to remove reference to the management role of SPAC Promoters (see Rule 1.01 in Appendix IV to this paper).

Disciplinary jurisdiction

474. We have amended the Rules to add SPAC Promoters to the list of persons against whom the Exchange may bring disciplinary actions (see the amendment to Rule 2A.09(1) in Appendix IV to this paper). This consequential amendment is made to ensure that SPAC Promoters, being a new party with obligations under the Listing Rules, can be exposed to regulatory consequences if they fail to discharge their Rule obligations.

¹⁹⁵ See UK Listing Rule 5.6.18BR for the definition of “founding shareholder” and “sponsor”.

¹⁹⁶ See [“Definitions and Interpretation” to the SGX Mainboard Rules](#) for the definition of “founding shareholder”.

Brokerage fee

Comments

475. Some respondents suggested that the Exchange waive the 1% brokerage fee requirement for the placing of SPAC securities at the initial listing of SPAC. This is the fee payable by the person subscribing for or purchasing the securities which shall be passed on by the issuer to the Exchange Participant or the Exchange (depending on whether the application for securities bears the chop of an Exchange Participant).¹⁹⁷ Respondents suggested the exemption because applying the charge will result in SPAC Investors receiving less than the total amount they paid for their investment upon redemption of their SPAC shares or upon liquidation of the SPAC.

Exchange Conclusions

476. The Exchange agrees with these comments from respondents and will apply the same exemption currently available to the placing of securities by an investment company¹⁹⁸, and exempt the 1% brokerage fee requirement for the placing of securities by SPAC at its initial listing.
477. We have amended the Listing Rules accordingly (see the amendment to paragraph 7 of Appendix 8 of the Listing Rules, in Appendix IV to this paper).

¹⁹⁷ See paragraph 7 of Appendix 8 of the Listing Rules.

¹⁹⁸ See paragraph 7(1) of Appendix 8 of the Listing Rules.

DEFINITIONS

TERM	DEFINITION
“Corporate Professional Investors”	trust corporations, corporations or partnerships falling under sections 4, 6 and 7 of the SFO PI Rules (see note to Table 4 below)
“CWUMPO”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)
“De-SPAC Announcement”	an announcement of the finalisation of the terms of a De-SPAC Transaction
“De-SPAC Announcement Deadline”	The deadline within which a SPAC must publish a De-SPAC Announcement (see paragraph 427)
“De-SPAC Target”	the target of a De-SPAC Transaction
“De-SPAC Transaction Deadline”	the deadline within which a SPAC must complete a De-SPAC Transaction (see paragraph 427)
“De-SPAC deadline extension”	an extension to either a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline
“De-SPAC Transaction”	an acquisition of, or a business combination with, a De-SPAC Target by a SPAC that results in the listing of a Successor Company
“ESG”	environmental, social and governance
“Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of HKEX
“Exchange Participant”	a person: (a) who, in accordance with the Rules of the Exchange, may trade on or through the Exchange; and (b) whose name is entered in a list, register or roll kept by the Exchange as a person who may trade on or through the Exchange (being the same definition as that of Chapter 1 of the Listing Rules)
“Guidance Letter on SPACs”	Guidance Letter on Special Purpose Acquisition Companies set out in Appendix V of this paper
“HKEX”	Hong Kong Exchanges and Clearing Limited

TERM	DEFINITION
“IFA”	independent financial adviser
“Individual Professional Investors”	individuals falling under section 5 of the SFO PI Rules (see note to Table 4 below)
“INED”	independent non-executive director
“Inside Information”	has the same meaning ascribed to it in Section 307A of the SFO
“Institutional Professional Investors”	see Table 4 below
“IPO”	initial public offering, including in the context of the proposed SPAC listing regime in HK as discussed in this paper, initial offering of SPAC Shares by a SPAC to Professional Investors
“IPO Sponsor”	any corporation or authorised financial institution, licensed or registered under the SFO for Type 6 regulated activity and permitted under its licence or certificate of registration to undertake work as a sponsor and, as applicable, which is appointed as a sponsor pursuant to Rule 3A.02
“Listing Document”	a Prospectus, a circular or any equivalent document (including a scheme of arrangement and introduction document) issued or proposed to be issued in connection with an application for listing
“Listing Rules” or “Rules”	the Rules Governing the Listing of Securities on the Exchange (Main Board unless otherwise stated)
“Main Board”	the main board of the Exchange
“Mainland China”	for the purpose of this paper, means the People’s Republic of China, other than the regions of Hong Kong, Macau and Taiwan
“NASDAQ”	The NASDAQ Stock Market, Inc.
“Negotiated De-SPAC Value”	the negotiated value of the De-SPAC Target as stated in the De-SPAC Announcement
“Non-Institutional Professional Investors”	see Table 4 below
“NYSE”	The New York Stock Exchange

TERM	DEFINITION
“PIPE”	in a US context, means Private Investments in Public Equity – the purchase of ordinary shares (or preferred stock that is convertible to ordinary shares) at a predetermined price (or exchange rate) in a private placement; and in the context of Hong Kong, means a third party investment, for the purposes of completing a De-SPAC Transaction, that has been committed prior to the De-SPAC Announcement
“Professional Investor”	an Institutional Professional Investor or a Non-Institutional Professional Investor. See Table 4 below
“Promoter Share”	a share of a separate class to SPAC Shares issued by a SPAC exclusively to a SPAC Promoter at nominal consideration
“Promoter Warrant”	a warrant of a separate class to SPAC Warrants issued by a SPAC exclusively to a SPAC Promoter
“Prospectus”	a prospectus as defined in Part 1, Division 2 of the CWUMPO
“RTO”	as defined by Rule 14.06B i.e. an acquisition or a series of acquisitions of assets by a listed issuer which, in the opinion of the Exchange, constitutes, or is part of a transaction and/or arrangement or series of transactions and/or arrangements which constitute, an attempt to achieve a listing of the acquisition targets and a means to circumvent the requirements for new applicants
“SEC”	US Securities and Exchange Commission
“SFC”	Securities and Futures Commission
“SFC’s Code of Conduct”	Code of Conduct for Persons Licensed by or Registered with the SFC
“SFO”	Securities and Futures Ordinance (Cap. 571)
“SFO PI Rules”	Securities and Futures (Professional Investor) Rules (Cap 571D)
“SGX”	Singapore Exchange Limited
“SGX Response Paper”	“Response Paper on Proposed Listing Framework for Special Purpose Acquisition Companies” published by SGX on 2 September 2021
“S&P 500 Index”	Standard & Poor 500 Index

TERM	DEFINITION
“SPAC”	an issuer with, or seeking, a listing that has no operating business and is established for the sole purpose of conducting a transaction in respect of an acquisition of, or a business combination with, a target, within a pre-defined time period, to achieve the listing of the target
“SPAC director”	includes any person who occupies the position of a director of a SPAC, by whatever name called
“SPAC employees”	the employees of a SPAC
“SPAC Exchange Participant”	an Exchange Participant approved by, or seeking approval by, the Exchange to use the Exchange’s facilities to trade SPAC Shares and SPAC Warrants
“SPAC Investor”	an investor in a SPAC either at the time of its initial offering or thereafter and holding any of SPAC Shares or SPAC Warrants
“SPAC Promoter”	a person who establishes a SPAC and/or beneficially owns Promoter Shares issued by a SPAC
“SPAC securities”	any of SPAC Shares or SPAC Warrants
“SPAC Share”	a share of a SPAC that is not a Promoter Share
“SPAC Warrant”	a warrant that provides the holder with the right to purchase a share that is not a Promoter Warrant
“Successor Company”	the listed issuer resulting from the completion of a De-SPAC Transaction
“Takeovers Code”	the SFC’s Codes on Takeovers and Mergers and Share Buy-backs
“Takeovers Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of such Executive Director
“Takeovers Panel”	the Takeover and Mergers Panel of the SFC
“UK”	the United Kingdom
“UK FCA”	the UK’s Financial Conduct Authority
“UK Listing Rules”	rules published by the UK FCA and contained in the Listing Rules sourcebook as part of the FCA Handbook
“US”	the United States of America

TERM	DEFINITION
“US Securities Act”	the US Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
“UT Code”	Code on Unit Trusts and Mutual Funds administered by the SFC as set out in Section II of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products
“Volatility Control Mechanism” or “VCM”	an Exchange mechanism designed to protect the market from disorderliness caused by extreme price volatility
“weighted voting right” or “WVR”	the voting power attached to a share of a particular class that is greater or superior to the voting power attached to an ordinary share, or other governance right or arrangement disproportionate to the beneficiary’s economic interest in the equity securities of the issuer
“WVR structure”	a structure of an issuer that results in any shareholder having WVR

Table 4: Definition of “Professional Investor” (the second column is taken from section 1 of Part 1 of Schedule 1 to the SFO):

Institutional Professional Investors	(a) any recognized exchange company, recognized clearing house, recognized exchange controller or recognized investor compensation company, or any person authorized to provide automated trading services under section 95(2) of the SFO;
	(b) any intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong;
	(c) any authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;
	(d) any insurer authorized under the Insurance Ordinance (Cap. 41), or any other person carrying on insurance business and regulated under the law of any place outside Hong Kong;
	(e) any scheme which— <ul style="list-style-type: none"> (i) is a collective investment scheme authorized under section 104 of the SFO; or (ii) is similarly constituted under the law of any place outside Hong Kong and, if it is regulated under the law of such place, is permitted to be operated under the law of such place, or any person by whom any such scheme is operated;
	(f) any registered scheme as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485), or its constituent fund as defined in section 2 of the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485 sub. leg. A), or any person who, in relation to any such registered scheme, is an approved trustee or service provider as defined in section 2(1) of that Ordinance or who is an investment manager of any such registered scheme or constituent fund;

Institutional Professional Investors	<p>(g) any scheme which—</p> <ul style="list-style-type: none"> (i) is a registered scheme as defined in section 2(1) of the Occupational Retirement Schemes Ordinance (Cap. 426); or (ii) is an offshore scheme as defined in section 2(1) of that Ordinance and, if it is regulated under the law of the place in which it is domiciled, is permitted to be operated under the law of such place, <p>or any person who, in relation to any such scheme, is an administrator as defined in section 2(1) of that Ordinance;</p>
	<p>(h) any government (other than a municipal government authority), any institution which performs the functions of a central bank, or any multilateral agency;</p>
	<p>(i) except for the purposes of Schedule 5 to the SFO, any corporation which is—</p> <ul style="list-style-type: none"> (i) a wholly owned subsidiary of— <ul style="list-style-type: none"> (A) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong; (ii) a holding company which holds all the issued share capital of— <ul style="list-style-type: none"> (A) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong; or (iii) any other wholly owned subsidiary of a holding company referred to in subparagraph (ii); or

<p>Non-Institutional Professional Investors</p> <p>(See Note below)</p>	<p>(j) any person of a class which is prescribed by rules made under section 397 of the SFO for the purposes of this paragraph as within the meaning of this definition for the purposes of the provisions of the SFO, or to the extent that it is prescribed by rules so made as within the meaning of this definition for the purposes of any provision of the SFO.</p>
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Note: The SFO PI Rules were promulgated pursuant to the SFC’s rule making power under section 397 of the SFO. Under the existing SFO PI Rules, the following persons are prescribed as professional investors for the purposes of paragraph (j) of the definition of “professional investor” in section 1 of Part 1 of Schedule 1 to the SFO:

- (i) **Corporate Professional Investors:** trust corporations, corporations or partnerships falling under sections 4, 6 and 7 of the SFO PI Rules, which include (i) a trust corporation with total assets of not less than HK\$40 million; and (ii) a corporation or partnership which have a portfolio of not less than HK\$8 million or total assets of not less than HK\$40 million.
- (ii) **Individual Professional investors:** individuals as specified in section 5 of the SFO PI Rules, which include an individual having a portfolio of not less than HK\$8 million.

For details, please refer to the SFO PI Rules.

APPENDIX I: LIST OF RESPONDENTS

Named respondents

<i>Accounting Firms</i>
Deloitte Touche Tohmatsu
Ernst & Young
KPMG
PricewaterhouseCoopers
<i>Corporate Finance Firms / Banks</i>
ABCI Capital Limited
Black Spade Capital Limited
Central China International Capital Limited
Charltons on behalf of: Alliance Capital Partners Limited, Altus Capital Limited, Anglo Chinese Corporate Finance, Limited, Frontpage Capital Limited, Oriental Patron Asia Limited, Somerley Capital Limited, and Yu Ming Investment Management Limited
China International Capital Corporation Hong Kong Securities Limited
Comprador Limited
Maxa Capital Limited
Norwich Investment Limited
Venture Smart Financial Holdings Limited
<i>Investment Managers</i>
18 Salisbury Capital
Carnegie Park Capital LLC
Celadon Partners
Shanghai AJ Group
<i>Law Firms</i>
Clifford Chance

Law Firms
Clifford Chance
Dentons Hong Kong LLP
Gallant
Jun He Law Offices
King & Wood Mallesons
Kirkland & Ellis
Latham & Watkins LLP
Loeb & Loeb LLP
Morrison & Foerster
ONC Lawyers
Patrick Mak & Tse
Simpson Thacher & Bartlett
Skadden Arps Slate Meagher & Flom
Slaughter and May
Stevenson, Wong & Co.
Withers
Listed Companies
Cathay Pacific Airways Limited (<i>Duplicate response of Swire Properties Limited</i>)
China Tonghai International Financial Limited
Swire Pacific Limited (<i>Duplicate response of Swire Properties Limited</i>)
Swire Properties Limited
Professional Bodies / Industry Associations
Asia Securities Industry & Financial Markets Association
Asian Corporate Governance Association

Association of Hong Kong Accounting Advisors
CFA Institute & CFA Society Hong Kong
CPA Australia
Financial Services Development Council
Hong Kong General Chamber of Commerce
Hong Kong Institute of Directors
Hong Kong Investment Funds Association
Hong Kong Professionals and Senior Executives Association
Hong Kong Trustees' Association
Hong Kong Venture Capital and Private Equity Association
Hong Kong Women Professionals & Entrepreneurs Association
Professional Investors Association
The Alternative Investment Management Association Ltd (Hong Kong Branch)
The British Chamber of Commerce in Hong Kong
The Chamber of Hong Kong Listed Companies
The Hong Kong Chartered Governance Institute
The Institute of Financial Planners of Hong Kong
The Institute of Securities Dealers
The Law Society of Hong Kong
<i>SPAC Promoters</i>
Ribbit Capital
<i>Other Companies / Organisations</i>
CHFT Advisory and Appraisal Ltd
Destone Capital, LLC
Financial Reporting Council

SWCS Corporate Services Group (Hong Kong) Limited

Vistra Corporate Services (HK) Limited
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<i>Individuals</i>

Mr. DU Jinsong

Mr. Jason Wong (<i>Duplicate response of Norwich Investment Limited</i>)
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Mr. 孙帆

Mr. 马晓力

Anonymous respondents

CATEGORY	NUMBER
Accounting Firms	1
Corporate Finance Firms / Banks	6
HKEX Participants	3
Investment Managers	7
Law Firms	2
Listed Companies	1
SPAC Promoters	2
Other Companies / Organisations	1
Individuals	5
TOTAL	28

APPENDIX II: QUANTITATIVE ANALYSIS OF RESPONSES

The table below summarises the quantitative responses¹ from respondents to all questions in the Consultation Paper. Due to rounding, the total percentage may not add up to 100%.

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(A) CONDITIONS FOR LISTING							
(I) Investor Suitability							
Q1	Do you agree that the subscription and trading of SPAC securities prior to a De-SPAC Transaction should be limited to Professional Investors only (see paragraph 149 of the Consultation Paper)?	52	58%	30	33%	8	9%
(II) Arrangements to Ensure Marketing to and Trading by Professional Investors only							
Q2	Do you agree with the measures proposed in paragraphs 151 to 159 of the Consultation Paper to ensure SPAC's securities are not marketed to and traded by the public in Hong Kong (excluding Professional Investors)?	45	87%	4	8%	3	6%
(III) Trading Arrangements							
Q3	Do you consider it appropriate for SPAC Shares and SPAC Warrants to be permitted to trade separately from the date of initial listing to a De-SPAC Transaction?	66	73%	6	7%	18	20%

¹ Excluding duplicate responses.

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q4 ²	Would either Option 1 (as set out in paragraph 170 of the Consultation Paper) or Option 2 (as set out in paragraph 171 to 174 of the Consultation Paper) be adequate to mitigate the risks of extraordinary volatility in SPAC Warrants and a disorderly market?	46	70%	6	9%	14	21%
(IV) Open Market Requirements							
Q5	Do you agree that, at its initial offering, a SPAC must distribute each of SPAC Shares and SPAC Warrants to a minimum of 75 Professional Investors in total (of either type) of which 30 must be Institutional Professional Investors?	35	39%	36	40%	19	21%
Q6	Do you agree that, at its initial offering, a SPAC must distribute at least 75% of each SPAC Shares and SPAC Warrants to Institutional Professional Investors?	29	32%	37	41%	24	27%
Q7	Do you agree that not more than 50% of the securities in public hands at the time of a SPAC's listing should be beneficially owned by the three largest public shareholders?	60	67%	7	8%	23	26%
Q8	Do you agree that at least 25% of the SPAC's total number of issued shares and at least 25% of the SPAC's total number of issued warrants must be held by the public at listing and on an ongoing basis?	59	66%	9	10%	22	24%

² 12% of respondents (eight respondents) supported Option 1, 58% (38 respondents) supported Option 2, and 9% (six respondents) chose a different option.

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q9	Do you agree that the shareholder distribution proposals set out in paragraphs 181 and 182 of the Consultation Paper will provide sufficient liquidity to ensure an open market in the securities of a SPAC prior to completion of a De-SPAC Transaction?	41	46%	24	27%	25	28%
Q10	Do you agree that, due to the imposition of restricted marketing, a SPAC should not have to meet the requirements set out in paragraph 184 of the Consultation Paper regarding public interest, transferability (save for transferability between Professional Investors) and allocation to the public?	61	68%	6	7%	23	26%
(V) SPAC Share Issue Price							
Q11	Do you agree that SPACs should be required to issue their SPAC Shares at an issue price of HK\$10 or above?	60	67%	8	9%	22	24%
(VI) SPAC Fund Raising Size							
Q12	Do you agree that the funds expected to be raised by a SPAC from its initial offering must be at least HK\$1 billion?	38	42%	35	39%	17	19%
(VII) Warrants							
Q13	Do you agree with the application of existing requirements relating to warrants with the proposed modifications set out in paragraph 202 of the Consultation Paper?	64	71%	4	4%	22	24%
Q14	Do you agree that Promoter Warrants and SPAC Warrants should be exercisable only after the completion of a De-SPAC Transaction?	64	71%	3	3%	23	26%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q15a	Do you agree that a SPAC must not issue Promoter Warrants at less than fair value?	45	50%	22	24%	23	26%
Q15b	Do you agree that a SPAC must not issue Promoter Warrants that contain more favourable terms than that of SPAC Warrants?	45	50%	21	23%	24	27%
(B) SPAC PROMOTERS AND SPAC DIRECTORS							
(I) SPAC Promoters							
Q16	Do you agree that the Exchange must be satisfied as to the character, experience and integrity of a SPAC Promoter and that each SPAC Promoter should be capable of meeting a standard of competence commensurate with their position?	71	79%	4	4%	15	17%
Q17a	Do you agree that the Exchange should publish guidance setting out the information that a SPAC should provide to the Exchange on each of its SPAC Promoter's character, experience and integrity (and disclose this information in the Listing Document it publishes for its initial offering), including the information set out in Box 1 of the Consultation Paper?	70	78%	4	4%	16	18%
Q17b	Is there additional information that should be provided or information that should not be required regarding each SPAC Promoter's character, experience and integrity?	11	12%	28	31%	51	57%
Q18	Do you agree that the Exchange, for the purpose of determining the suitability of a SPAC Promoter, should view favourably those that meet the criteria set out in paragraph 216 of the Consultation Paper?	52	58%	20	22%	18	20%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q19a	Do you agree that at least one SPAC Promoter must be a firm that holds a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC?	53	59%	24	27%	13	14%
Q19b	Do you agree that the SFC licensed SPAC Promoter must hold at least 10% of the Promoter Shares?	47	89%	4	8%	2	4%
Q20a	Do you agree that, in the event of a material change in the SPAC Promoter or the suitability and/or eligibility of a SPAC Promoter, such a material change must be approved by a special resolution of shareholders at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting)?	66	73%	8	9%	16	18%
Q20b	Should the trading of a SPAC's securities be suspended and the SPAC return the funds it raised from its initial offering to its shareholders, liquidate and de-list (in accordance with the process set out in paragraphs 435 and 436 of the Consultation Paper) if it fails to obtain the requisite shareholder approval within one month of the material change?	62	94%	2	3%	2	3%
(II) SPAC Directors							
Q21	Do you agree that the majority of directors on the board of a SPAC must be officers (as defined under the SFO) of the SPAC Promoters (both licensed and non-licensed) representing the respective SPAC Promoters who nominate them?	53	59%	16	18%	21	23%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(C) CONTINUING OBLIGATIONS							
(I) Funds Held in Trust							
Q22	Do you agree that 100% of the gross proceeds of a SPAC's initial offering must be held in a ring-fenced trust account located in Hong Kong?	56	62%	19	21%	15	17%
Q23	Do you agree that the trust account must be operated by a trustee/custodian whose qualifications and obligations should be consistent with the requirements set out in Chapter 4 of the Code on Unit Trusts and Mutual Funds?	56	62%	2	2%	32	36%
Q24	Do you agree that the gross proceeds of the SPAC's initial offering must be held in the form of cash or cash equivalents such as bank deposits or short-term securities issued by governments with a minimum credit rating of (a) A-1 by S&P; (b) P-1 by Moody's Investors Service; (c) F1 by Fitch Ratings; or (d) an equivalent rating by a credit rating agency acceptable to the Exchange?	71	79%	2	2%	17	19%
Q25	Do you agree that the gross proceeds of the SPAC's initial offering held in trust (including interest accrued on those funds) must not be released other than in the circumstances described in paragraph 231 of the Consultation Paper?	65	72%	5	6%	20	22%
(II) Promoter Shares and Warrants							
Q26	Do you agree that only the SPAC Promoter should be able to beneficially hold Promoter Shares and Promoter Warrants at listing and thereafter?	51	57%	16	18%	23	26%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q27	Do you agree with the restrictions on the listing and transfer of Promoter Shares and Promoter Warrants set out in paragraphs 241 to 242 of the Consultation Paper?	48	94%	2	4%	1	2%
Q28	Do you agree with our proposal to prohibit a SPAC Promoter (including its directors and employees), SPAC directors and SPAC employees, and their respective close associates, from dealing in the SPAC's securities prior to the completion of a De-SPAC Transaction?	65	72%	6	7%	19	21%
(III) Trading Halts and Suspension							
Q29	Do you agree that the Exchange should apply its existing trading halt and suspension policy to SPACs (see paragraphs 249 to 251 of the Consultation Paper)?	70	78%	1	1%	19	21%
(D) DE-SPAC TRANSACTION REQUIREMENTS							
(I) Application of New Listing Requirements							
Q30	Do you agree that the Exchange should apply new listing requirements to a De-SPAC Transaction as set out in paragraphs 259 to 281 of the Consultation Paper?	52	58%	26	29%	12	13%
(II) Eligibility of De-SPAC Targets							
Q31	Do you agree that investment companies (as defined by Chapter 21 of the Listing Rules) should not be eligible De-SPAC Targets?	56	62%	13	14%	21	23%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(III) Size of De-SPAC Targets							
Q32	Do you agree that the fair market value of a De-SPAC Target should represent at least 80% of all the funds raised by the SPAC from its initial offering (prior to any redemptions)?	61	68%	8	9%	21	23%
Q33	Should the Exchange impose a requirement on the amount of funds raised by a SPAC (funds raised from the SPAC's initial offering plus PIPE investments, less redemptions) that the SPAC must use for the purposes of a De-SPAC Transaction?	37	41%	33	37%	20	22%
Q34	Should a SPAC be required to use at least 80% of the net proceeds it raises (i.e. funds raised from the SPAC's initial offering plus PIPE investments, less redemptions) to fund a De-SPAC Transaction?	31	84%	5	14%	1	3%
(IV) Independent Third Party Investment							
Q35	Do you agree that the Exchange should mandate that a SPAC obtain funds from outside independent PIPE investors for the purpose of completing a De-SPAC Transaction?	39	43%	37	41%	14	16%
Q36	Do you agree that the Exchange should mandate that this outside independent PIPE investment must constitute at least 25% of the expected market capitalisation of the Successor Company with a lower percentage of between 15% and 25% being acceptable if the Successor Company is expected to have a market capitalisation at listing of over HK\$1.5 billion?	26	67%	12	31%	1	3%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q37	Do you agree that at least one independent PIPE investor in a De-SPAC Transaction must be an asset management firm with assets under management of at least HK\$1 billion or a fund of a fund size of at least HK\$1 billion and that its investment must result in it beneficially owning at least 5% of the issued shares of the Successor Company as at the date of the Successor Company's listing?	25	64%	13	33%	1	3%
Q38	Do you agree with the application of IFA requirements to determine the independence of outside PIPE investors?	30	77%	7	18%	2	5%
(V) Dilution Cap							
Q39	Do you prefer that the Exchange impose a cap on the maximum dilution possible from the conversion of Promoter Shares or exercise of warrants issued by a SPAC?	43	48%	29	32%	18	20%
Q40	Do you agree with the anti-dilution mechanisms proposed in paragraph 311 of the Consultation Paper?	36	84%	5	12%	2	5%
Q41	Do you agree that the Exchange should be willing to accept requests from a SPAC to issue additional Promoter Shares if the conditions set out in paragraph 312 of the Consultation Paper are met?	42	98%	0	0%	1	2%
Q42	Do you agree that any anti-dilution rights granted to a SPAC Promoter should not result in them holding more than the number of Promoter Shares that they held at the time of the SPAC's initial offering?	53	59%	13	14%	24	27%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(VI) Shareholder Vote on De-SPAC Transactions							
Q43	Do you agree that a De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting as set out in paragraph 320 of the Consultation Paper?	72	80%	2	2%	16	18%
Q44	Do you agree that a shareholder and its close associates must abstain from voting at the relevant general meeting on the relevant resolution(s) to approve a De-SPAC Transaction if such a shareholder has a material interest in the transaction as set out in paragraph 321 of the Consultation Paper?	65	90%	7	10%	0	0%
Q45	Do you agree that the terms of any outside investment obtained for the purpose of completing a De-SPAC Transaction must be included in the relevant resolution(s) that are the subject of the shareholders vote at the general meeting?	66	92%	4	6%	2	3%
(VII) De-SPAC Transactions Involving Connected De-SPAC Targets							
Q46	Do you agree that the Exchange should apply its connected transaction Rules (including the additional requirements set out in paragraph 334) to De-SPAC Transactions involving targets connected to the SPAC; the SPAC Promoter; the SPAC's trustee/custodian; any of the SPAC directors; or an associate of any of these parties as set out in paragraphs 327 to 334 of the Consultation Paper?	71	79%	2	2%	17	19%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(VIII) Alignment of Voting with Redemption							
Q47	Do you agree that SPAC shareholders should only be able to redeem SPAC Shares they vote against one of the matters set out in paragraph 352 of the Consultation Paper?	40	44%	35	39%	15	17%
(IX) Share Redemptions							
Q48	Do you agree a SPAC should be required to provide holders of its shares with the opportunity to elect to redeem all or part of the shares they hold (for full compensation of the price at which such shares were issued at the SPAC's initial offering plus accrued interest) in the three scenarios set out in paragraph 352 of the Consultation Paper?	68	76%	7	8%	15	17%
Q49	Do you agree a SPAC should be prohibited from limiting the amount of shares a SPAC shareholder (alone or together with their close associates) may redeem?	61	68%	8	9%	21	23%
Q50	Do you agree with the proposed redemption procedure described in paragraphs 355 to 362 of the Consultation Paper?	63	70%	5	6%	22	24%
(X) Forward Looking Information							
Q51	Do you agree that SPACs should be required to comply with existing requirements with regards to forward looking statements (see paragraphs 371 and 372 of the Consultation Paper) included in a Listing Document produced for a De-SPAC Transaction?	58	64%	12	13%	20	22%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(XI) Open Market in Successor Company's Shares							
Q52	Do you agree that a Successor Company must ensure that its shares are held by at least 100 shareholders (rather than the 300 shareholders normally required) to ensure an adequate spread of holders in its shares?	58	64%	10	11%	22	24%
Q53	Do you agree that the Successor Company must meet the current requirements that (a) at least 25% of its total number of issued shares are at all times held by the public and (b) not more than 50% of its securities in public hands are beneficially owned by the three largest public shareholders, as at the date of the Successor Company's listing?	62	69%	7	8%	21	23%
Q54	Are the shareholder distribution proposals set out in paragraphs 380 and 382 of the Consultation Paper sufficient to ensure an open market in the securities of a Successor Company or are there other measures that the Exchange should use to help ensure an open market?	57	63%	7	8%	26	29%
(XII) Lock-up Periods							
Q55	Do you agree that SPAC Promoters should be subject to a restriction on the disposal of their holdings in the Successor Company after the completion of a De-SPAC Transaction?	67	74%	4	4%	19	21%
Q56a	Do you agree that the Exchange should impose a lock-up on disposals, by the SPAC Promoter, of its holdings in the Successor Company during the period ending 12 months from the date of the completion of a De-SPAC Transaction?	56	84%	11	16%	0	0%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q56b	Do you agree that Promoter Warrants should not be exercisable during the period ending 12 months from the date of the completion of a De-SPAC Transaction?	55	82%	10	15%	2	3%
Q57	Do you agree that the controlling shareholders of a Successor Company should be subject to a restriction on the disposal of their shareholdings in the Successor Company after the De-SPAC Transaction?	68	76%	3	3%	19	21%
Q58	Do you agree that these restrictions should follow the current requirements of the Listing Rules on the disposal of shares by controlling shareholders following a new listing (see paragraph 394 of the Consultation Paper)?	66	97%	1	1%	1	1%
(E) APPLICATION OF THE TAKEOVERS CODE							
(I) Prior to De-SPAC Transaction Completion							
Q59	Do you agree that the Takeovers Code should apply to a SPAC prior to the completion of a De-SPAC Transaction?	64	71%	5	6%	21	23%
(II) The De-SPAC Transaction							
Q60	Do you agree that the Takeovers Executive should normally waive the application of Rule 26.1 of the Takeovers Code in relation to a De-SPAC Transaction, the completion of which would result in the owner of the De-SPAC Target obtaining 30% or more of the voting rights in a Successor Company, subject to the exceptions and conditions set out in paragraphs 411 to 415 of the Consultation Paper?	69	77%	1	1%	20	22%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(F) DE-LISTING CONDITIONS							
(I) Deadlines							
Q61	Do you agree that the Exchange should set a time limit of 24 months for the publication of a De-SPAC Announcement and 36 months for the completion of a De-SPAC Transaction (see paragraph 423 of the Consultation Paper)?	67	74%	7	8%	16	18%
Q62	Do you agree that the Exchange should suspend a SPAC's listing if it fails to meet either the De-SPAC Announcement Deadline or the De-SPAC Transaction Deadline (see paragraphs 424 and 425 of the Consultation Paper)?	69	77%	4	4%	17	19%
Q63	Do you agree that a SPAC should be able to make a request to the Exchange for an extension of either a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline if it has obtained the approval of its shareholders for the extension at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting) (see paragraphs 426 and 427 of the Consultation Paper)?	72	80%	2	2%	16	18%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
(II) Liquidation and De-Listing							
Q64	Do you agree that, if a SPAC fails to (a) announce / complete a De-SPAC Transaction within the applicable deadlines (including any extensions granted to those deadlines) (see paragraphs 423 to 428 of the Consultation Paper); or (b) obtain the requisite shareholder approval for a material change in SPAC Promoters (see paragraphs 218 and 219 of the Consultation Paper) within one month of the material change, the Exchange will suspend the trading of a SPAC's shares and the SPAC must, within one month of such suspension return to its shareholders (excluding holders of the Promoter Shares) 100% of the funds it raised from its initial offering, on a pro rata basis, plus accrued interest?	69	77%	5	6%	16	18%
Q65	Do you agree that (a) a SPAC must liquidate after returning its funds to its shareholders and (b) the Exchange should automatically cancel the listing of a SPAC upon completion of its liquidation?	67	97%	2	3%	0	0%
(G) CONSEQUENTIAL MODIFICATIONS AND EXEMPTIONS							
Q66	Do you agree that SPACs, due to their nature, should be exempt from the requirements set out in paragraph 437 of the Consultation Paper?	69	77%	2	2%	19	21%
Q67	Do you agree with our proposal to require that a listing application for or on behalf of a SPAC be submitted no earlier than one month (rather than two months ordinarily required) after the date of the IPO Sponsor's formal appointment?	66	73%	1	1%	23	26%

NO.	SUMMARISED QUESTIONS	YES	%	NO	%	DID NOT COMMENT	%
Q68	Should the Exchange exempt SPACs from any Listing Rule disclosure requirement prior to a De-SPAC Transaction, or modify those requirements for SPACs, on the basis that the SPAC does not have any business operations during that period?	63	70%	8	9%	19	21%

APPENDIX III: METHODOLOGY

Purpose of the Exchange's methodology

1. In reviewing and drawing conclusions from the consultation responses, the Exchange's goal is to ensure that we come to a balanced view in the best interest of the market as a whole and in the public interest.
2. The effectiveness of this process depends on the submission of original responses from a broad range of respondents that give considered and substantive reasons for their views. The Exchange's methodology, accordingly, aims to accurately categorise respondents and identify different viewpoints. In line with the Exchange's past publicly stated practice, this requires a qualitative assessment of the responses in addition to a quantitative assessment.

Identifying the category of respondent

3. In this paper, respondents are categorised according to whether their response represented the view of:
 - (a) an institution or an individual;
 - (b) for an institution, one of the following: "Accounting Firm", "Corporate Finance Firm / Bank", "HKEX Participant", "Investment Manager", "Law Firm", "Listed Company", "Professional Body / Industry Association", "SPAC Promoter" or "Other Company / Organisation"; and
 - (c) for an individual, one of the following: "Accountant", "Corporate Finance Staff", "HKEX Participant Staff", "Investment Management Staff", "Lawyer", "Listed Company Staff", "Retail Investor" or "Other Individual".
4. The Exchange used its best judgment to categorise each respondent using the most appropriate description above.
5. The Exchange categorised "Professional Bodies / Industry Associations" as a single group rather than strictly assigning them individually to other categories (e.g. by assigning qualified accountants' associations to the "Professional Bodies / Industry Associations" category instead of the "Accounting Firms" category). This is in line with the Exchange's past practice. Subjective judgment is required to assign professional bodies to other categories and some do not fit easily with other categories of respondents.
6. It is not the Exchange's practice to categorise "Investment Managers" by their assets under management for the purposes of analysing consultation responses, as the Exchange believes that the size of an institution's global assets does not mean that the Exchange should necessarily attach more insight to their arguments or viewpoints. This would also raise issues as to the treatment of representative bodies that have considerable variances in number and type of members. Similarly, it is not the Exchange's practice to categorise professional bodies by their size and nature of their membership.

Respondents by category

7. Breakdowns of institutional respondents and individual respondents to this consultation by category are set out in Table 1 and Table 2 below respectively. Due to rounding, the total percentage in each table may not add up to 100%.

Table 1: Breakdown of institutional respondents by category

CATEGORY	NUMBER	%
Accounting Firms	5	6%
Corporate Finance Firms / Banks	14	17%
HKEX Participants	3	4%
Investment Managers	11	13%
Law Firms	16	20%
Listed Companies	3	4%
Professional Bodies / Industry Associations	21	26%
SPAC Promoters	3	4%
Other Companies / Organisations	6	7%
TOTAL¹	82	100%

Table 2: Breakdown of individual respondents by category

CATEGORY	NUMBER	%
Corporate Finance Staff	2	25%
HKEX Participant Staff	2	25%
Lawyers	1	13%
Retail Investors	1	13%
Other Individuals	2	25%
TOTAL²	8	100%

¹ Total number excludes duplicated responses.

² Total number excludes duplicated responses.

Qualitative analysis

The Exchange performed a qualitative analysis to enable it to properly consider the broad spectrum of respondents and their views. A qualitative analysis enabled the Exchange to give due weight to responses submitted on behalf of multiple persons or institutions and the underlying rationale for a respondent's position.

Quantitative analysis

8. The Exchange also performed an analysis to determine the support, in purely numerical terms, for the Consultation Paper proposals. The result of this analysis forms **Appendix II**.
9. For the purpose of its quantitative analysis, the Exchange placed each response into one of the following four categories based on the content of the response with respect to each of the Consultation Paper proposals:
 - (a) support;
 - (b) not support; or
 - (c) no comment.

Counting responses not respondents

10. For the purpose of its quantitative analysis, the Exchange counted the number of responses received not the number of respondents those submissions represented. This means:
 - (a) a submission by a professional body is counted as one response even though that body/association may represent many individual members;
 - (b) a submission representing a group of individuals is counted as one response; and
 - (c) a submission by a law firm representing a group of market practitioners (e.g. sponsor firms or banks) is counted as one response.
11. However, when undertaking qualitative analysis of responses, the Exchange has taken into account the number and nature of the persons or firms represented by other respondents.
12. The Exchange's method of counting responses, not respondents they represent, is the Exchange's long established publicly stated policy.

Duplicate responses

13. Six responses were found to duplicate other responses and were not counted for the purpose of our quantitative and qualitative analysis of the responses.

Anonymous responses

14. 28 respondents requested their responses be published anonymously (see **Appendix I** for the number of these respondents in each category). We have included these responses in the list of responses published on the HKEX website, identified by category only (e.g. “Individuals”).
15. We counted these responses for the purpose of both our qualitative and quantitative assessment of responses.

APPENDIX IV: AMENDMENTS TO MAIN BOARD LISTING RULES

Chapter 1

GENERAL

INTERPRETATION

...

- 1.01 Throughout these Rules, the following terms, except where the context otherwise requires, have the following meanings:

...

“special purpose acquisition company” or “SPAC”

an issuer that has no operating business and is established for the sole purpose of conducting a transaction in respect of an acquisition of, or a business combination with, a target, within a pre-defined time period, to achieve the listing of the target

“SPAC Promoter”

a person who establishes a SPAC and/or beneficially owns Promoter Shares issued by a SPAC

...

“UT Code”

Code on Unit Trusts and Mutual Funds administered by the Commission as set out in Section II of the Commission’s Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products

...

Chapter 2A

GENERAL

COMPOSITION, POWERS, FUNCTIONS AND PROCEDURES OF THE LISTING COMMITTEE, THE LISTING REVIEW COMMITTEE AND THE LISTING DIVISION

...

Disciplinary Jurisdiction and Sanctions

2A.09 (1) The Exchange may bring disciplinary actions and impose or issue the sanctions in rule 2A.10 against any of the following:

...

(d) any substantial shareholder of a listed issuer;

(dd) any SPAC Promoter;

(e) any professional adviser of a listed issuer or any of its subsidiaries;

...

Chapter 8

EQUITY SECURITIES

QUALIFICATIONS FOR LISTING

Preliminary

8.01

...

Further conditions are set out in Chapters 8A, 18, 18A, 18B, 19, 19A, 19B and 19C for issuers seeking a listing of equity securities under those chapters.

...

Chapter 11

EQUITY SECURITIES

LISTING DOCUMENTS

...

Contents

...

11.08 Special requirements for listing documents are set out in Chapters 8A, 18, 18A, 18B, 19, 19A, 19C and 21 for issuers with, or seeking, a listing of equity securities under those chapters.

...

Chapter 18B

EQUITY SECURITIES

SPECIAL PURPOSE ACQUISITION COMPANIES

Scope

The Exchange Listing Rules apply as much to SPACs and Successor Companies with, or seeking, a listing as they do to other issuers, subject to the additional requirements, modifications or exceptions set out or referred to in this Chapter.

SPACs are encouraged to contact the Exchange if they envisage any difficulties in complying fully with the applicable requirements set out in this Chapter.

DEFINITIONS

18B.01 The following definitions apply:

<u>“connected person”</u>	<u>the definition of a “connected person” in rule 14A.07, with respect to a SPAC, is modified to include a SPAC Promoter, a SPAC Director and an associate of these parties</u>
<u>“core connected person”</u>	<u>the definition of a “core connected person” in rule 1.01, with respect to a SPAC, is modified to include a SPAC Promoter, a SPAC Director and a close associate of any of these parties</u>

<u>“De-SPAC Target”</u>	<u>the target of a De-SPAC Transaction</u>
<u>“De-SPAC Transaction”</u>	<u>an acquisition of, or a business combination with, a De-SPAC Target by a SPAC that results in the listing of a Successor Company</u>
<u>“Institutional Professional Investors”</u>	<u>persons falling under paragraphs (a) to (i) of the definition of “professional investor” in section 1 of Part 1 of Schedule 1 to the SFO</u>
<u>“Non-Institutional Professional Investors”</u>	<u>persons falling under paragraph (j) of the definition of “professional investor” in section 1 of Part 1 of Schedule 1 to the SFO</u>
<u>“Professional Investor”</u>	<u>an Institutional Professional Investor or a Non-Institutional Professional Investor</u>
<u>“Promoter Share”</u>	<u>a share of a separate class to SPAC Shares issued by a SPAC exclusively to a SPAC Promoter at nominal consideration</u>
<u>“Promoter Warrant”</u>	<u>a warrant of a separate class to SPAC Warrants issued by a SPAC exclusively to a SPAC Promoter</u>
<u>“SPAC Director”</u>	<u>a director of a SPAC</u>
<u>“SPAC Share”</u>	<u>a share of a SPAC that is not a Promoter Share</u>
<u>“SPAC Warrant”</u>	<u>a warrant issued by a SPAC that is not a Promoter Warrant</u>
<u>“Successor Company”</u>	<u>the listed issuer resulting from the completion of a De-SPAC Transaction</u>
<u>“warrants”</u>	<u>have the same meaning as defined in rule 15.01 and for the avoidance of doubt, include SPAC Warrants and Promoter Warrants</u>

CONDITIONS FOR LISTING

Basic Conditions

18B.02 Rules 8.05, 8.05A, 8.05B and 8.05C do not apply to a SPAC.

Restrictions on Marketing to and Trading by the Public

18B.03 The Exchange must be satisfied that adequate arrangements have been made to ensure that the securities of a SPAC will not be marketed to or traded by the public in Hong Kong (without prohibiting marketing to or trading by Professional Investors). For this reason a SPAC will be required to:

- (1) have a board lot size and subscription size of a value of at least HK\$1,000,000 for its SPAC Shares;
- (2) demonstrate to the Exchange that each intermediary involved in marketing or selling securities for and on its behalf, as part of its “know your client” procedures under the Code of Conduct, satisfy itself that each placee is a Professional Investor; and
- (3) demonstrate to the Exchange that all other aspects of the structure of any SPAC securities offering preclude access by the public (other than Professional Investors).

Note: For the purpose of compliance with this rule, the initial offering of a SPAC must not involve a public subscription tranche of securities.

18B.04 Rules 8.07, 8.13 (save that a SPAC’s securities must be freely transferable between Professional Investors only), 8.23 and Practice Note 18 do not apply to the initial offering of a SPAC.

Open Market Requirements

18B.05 Rule 8.08(2) is modified to require that, for each class of securities new to listing by a SPAC, at the time of listing, there must be an adequate spread of holders of the securities to be listed which must, in all cases, be at least 75 Professional Investors, of whom at least 20 must be Institutional Professional Investors and such Institutional Professional Investors must hold at least 75% of the securities to be listed.

Note: A SPAC must meet all other open market requirements applicable to a new listing, including the requirements of rule 8.08(1) that at least 25% of its total number of issued shares (and 25% of its total number of issued warrants) are at all times held by the public (see rule 8.24) and rule 8.08(3) that not more than 50% of the securities in public hands (see rule 8.24) at the time of listing can be beneficially owned by the three largest public shareholders.

Trading Arrangements

18B.06 SPACs must apply to list SPAC Shares and SPAC Warrants that trade separately from the date of initial listing onwards.

Issue Price

18B.07 Each SPAC Share for which a listing is sought must have an issue price of at least HK\$10.

Fund Raising Size

18B.08 At the time of listing, the gross funds raised by a SPAC from its initial offering must be at least HK\$1,000,000,000.

CONTENTS OF LISTING DOCUMENTS

18B.09 In addition to the information set out in Appendix 1A, a SPAC must include in its listing document:-

- (1) a prominent statement on the front cover of the listing document stating that the securities of a SPAC are only to be issued to, or traded by, Professional Investors, and that the listing document is to be distributed to Professional Investors only;
- (2) the information required by rule 15.03 for all warrants issued or granted by the SPAC;
- (3) the information referred to in rule 18B.10 regarding the SPAC Promoters as at the latest practicable date;
- (4) the identity of the trustee or custodian referred to in rule 18B.17 and the details of the SPAC's trust or custodian arrangements (including the circumstances under which the funds in the escrow account may be released);
- (5) full disclosure of the SPAC's structure, the types of securities issued or to be issued by the SPAC and their nature, including details of any proposed earn-out rights referred to in Note 1 to rule 18B.29(1) and the mechanism under which the Promoter Shares are to be converted into the shares of the Successor Company;
- (6) prominent disclosure of the major risk factors relating to investment in the SPAC (including those relating to liquidity and volatility of its securities);
- (7) its business strategy including its criteria for selecting a De-SPAC Target (including its target business sector, types of assets, and geographic area for the purpose of undertaking a De-SPAC Transaction);
- (8) a statement by the SPAC Directors that the SPAC has not entered into a binding agreement with respect to a potential De-SPAC Transaction;

- (9) terms of (a) the initial investment in the SPAC by; and (b) the benefits and/or rewards prior to or upon completion of the De-SPAC Transaction that will be provided to, the SPAC Promoters, the SPAC Directors, the senior management of the SPAC and their respective close associates (including justification for any discounts to the initial investment, and value of the benefits and/or rewards, and a commentary on the alignment of their interests with the interests of other shareholders);
- (10) (a) prominent disclosure on the impact of dilution to shareholders due to (i) there being less equity contribution from the SPAC Promoters in respect of the Promoter Shares (and such other known dilutive factors or events); (ii) the exercise of the warrants; and (b) any mitigating measures taken to minimise the impact of dilution to shareholders; and
- (11) voting, redemption and liquidation rights of SPAC shareholders including the basis of the computation of their entitlements in the event of a redemption of shares and liquidation of the SPAC.

SPAC PROMOTERS AND SPAC DIRECTORS

SPAC Promoters

18B.10 At listing of the SPAC and on an ongoing basis for the lifetime of the SPAC, the Exchange must be satisfied as to the character, experience and integrity of all SPAC Promoters and that each is capable of meeting a standard of competence commensurate with its position. For the purpose of demonstrating the above, a SPAC must ensure that:

- (1) at listing and on an ongoing basis, at least one of its SPAC Promoters is a firm that holds a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) licence issued by the Commission; and
- (2) it provides the Exchange with information that the Exchange requests in accordance with guidance published on the Exchange's website as amended from time to time.

Note 1: The Exchange reserves the right to request that a SPAC provide further information regarding any SPAC Promoter's character, experience and integrity for the purpose of rule 18B.10.

Note 2: The Exchange may waive rule 18B.10(1), based on the merits of an individual case, in accordance with guidance published on the Exchange's website as amended from time to time.

18B.11 At least one of the SPAC Promoters satisfying rule 18B.10(1) must be the beneficial holder of at least 10% of the Promoter Shares issued by the SPAC.

SPAC Directors

18B.12 At listing of the SPAC and on an ongoing basis for the lifetime of the SPAC, in addition to meeting the requirements of these rules, any director nominated by a SPAC Promoter for appointment to the board of a SPAC must be an officer (as defined under the SFO) of the SPAC Promoter (whether or not Commission licensed) representing the SPAC Promoter who nominated him or her.

Note: Where a SPAC Promoter is an individual, that person must be a director of the SPAC.

18B.13 At listing of the SPAC and on an ongoing basis for the lifetime of the SPAC, the board of a SPAC must include at least two individuals licensed by the Commission to carry out Type 6 (advising on corporate finance) and/or Type 9 (asset management) regulated activities for a Commission licensed corporation.

18B.14 At least one of the individuals referred to in rule 18B.13 must be a licensed person of a SPAC Promoter referred to in rule 18B.10(1).

DEALING RESTRICTIONS

18B.15 The following persons and their close associates are prohibited from dealing in any of the SPAC's listed securities prior to the completion of a De-SPAC Transaction:

- (1) SPAC Promoters, their respective directors and employees;
- (2) SPAC Directors; and
- (3) employees of the SPAC.

CONTINUING OBLIGATIONS

Escrow Account

18B.16 A SPAC must hold 100% of the gross proceeds of its initial offering (excluding proceeds raised from the issue of Promoter Shares and Promoter Warrants) in a ring-fenced escrow account domiciled in Hong Kong.

18B.17 The escrow account referred to in rule 18B.16 must be operated by a trustee or custodian whose qualifications and obligations are consistent with the requirements of Chapter 4 of the UT Code.

18B.18 The monies held in the escrow account referred to in rule 18B.16 must be held in the form of cash or cash equivalents.

Note: It is the SPAC's responsibility to ensure that funds are held in a form that allows them to meet the requirement to give full redemption to shareholders under rules 18B.57 and 18B.74. The Exchange may publish guidance on the Exchange's website, as amended from time to time, on its interpretation of "cash equivalents" for the purpose of this rule.

18B.19 Save as permitted under rule 18B.20, the monies held in the escrow account referred to in rule 18B.16 must not be released to any person other than to:

- (1) meet redemption requests of the SPAC shareholders in accordance with rule 18B.59;
- (2) complete a De-SPAC Transaction;
- (3) return funds to SPAC shareholders in accordance with rule 18B.74; or
- (4) return funds to SPAC shareholders upon the liquidation or winding up of the SPAC.

Note: Save as permitted under rule 18B.20, the expenses incurred by a SPAC before the De-SPAC Transaction must not be funded from the monies held in the escrow account referred to in rule 18B.16.

18B.20 Any interest, or other income earned, on monies held in the escrow account referred to in rule 18B.16 may be used by a SPAC to settle its expenses.

Warrants

18B.21 All warrants must, prior to the allotment, issue, or grant thereof by a SPAC, be approved:

- (1) by the Exchange; and
- (2) in the case of warrants proposed to be allotted, issued or granted by a SPAC after its listing, by SPAC shareholders in a general meeting.

Note: For the avoidance of doubt, SPAC Promoters and their close associates will be regarded by the Exchange as having a material interest in resolutions regarding the allotment, issue and/or grant of Promoter Warrants to them and must abstain from voting at the general meeting referred to in rule 18B.21(2).

18B.22 Each warrant allotted, issued or granted by a SPAC must:

- (1) have an exercise price representing at least a 15% premium to the issue price of the SPAC Shares that it issued at its initial listing;
- (2) have an exercise period that commences after the completion of a De-SPAC Transaction;
- (3) expire not less than one year and not more than five years from the date of the completion of a De-SPAC Transaction, and must not be convertible into further rights to subscribe for securities which expire less than one year or more than five years after the date of the completion of a De-SPAC Transaction; and

- (4) only result in the issuance of shares in a Successor Company upon exercise.
- 18B.23 The number of shares to be issued upon exercise of all outstanding warrants issued or granted by a SPAC must not, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 50% of the number of shares in issue at the time such warrants are issued.
- Note: The reference to “the number of shares in issue” in this rule includes Promoter Shares issued by a SPAC.*
- 18B.24 Rule 15.02 does not apply to a SPAC.

Promoter Shares and Promoter Warrants

- 18B.25 A SPAC must not apply to list Promoter Shares or Promoter Warrants.
- 18B.26 A SPAC Promoter who is allotted, issued or granted any Promoter Shares or Promoter Warrants by a SPAC must remain as the beneficial owner of those Promoter Shares or Promoter Warrants at the listing of the SPAC and for the lifetime of the Promoter Shares or Promoter Warrants.
- Note 1: The Exchange would consider there to be a change in beneficial owner if a SPAC Promoter enters into any arrangement for another person to be entitled to the economic interest in the Promoter Shares or to have control over the voting rights attached to them (through voting proxies or otherwise).*
- Note 2: If a SPAC Promoter departs from a SPAC, or where there is a change in beneficial ownership contrary to this rule, the SPAC Promoter must surrender the relevant Promoter Shares and Promoter Warrants it beneficially owns to the SPAC and the SPAC must cancel those Promoter Shares and Promoter Warrants.*
- Note 3: In exceptional circumstances (e.g. the revocation of the licence of a SPAC Promoter resulting in the departure of the transferor SPAC Promoter), the Exchange may waive this rule, based on the merits of an individual case, to permit the transfer of Promoter Shares or Promoter Warrants between SPAC Promoters of the same SPAC. This is on the condition that the transfer is subject to approval of a resolution on the matter by shareholders at a general meeting. SPAC Promoters and their close associates would be regarded by the Exchange as having a material interest and must abstain from voting on such a resolution.*
- 18B.27 A SPAC must only allot, issue or grant Promoter Shares or Promoter Warrants to a SPAC Promoter.

Note: A SPAC may allot, issue or grant these securities to a limited partnership, trust, private company or other vehicle to hold on behalf of a SPAC Promoter provided that such an arrangement does not result in a transfer of beneficial ownership of the securities to a person other than the SPAC Promoter.

18B.28 A SPAC must not register, certify or otherwise facilitate the transfer of title of any Promoter Shares or Promoter Warrants to a person other than the SPAC Promoter to whom they were originally allotted, issued or granted.

Note 1: A SPAC may register, certify or otherwise facilitate the transfer of legal title of these securities to a limited partnership, trust, private company or other vehicle to hold on behalf of the SPAC Promoter to which they were originally allotted, issued or granted provided that such an arrangement does not result in a transfer of beneficial ownership of the securities to a person other than that SPAC Promoter.

Note 2: The Exchange may waive this rule in accordance with Note 3 to rule 18B.26.

18B.29 (1) A SPAC must not allot, issue or grant any Promoter Shares to SPAC Promoters that represent more than 20% of the total number of shares the SPAC has in issue as at the date of its listing.

Note 1: The Exchange is willing to consider, on a case by case basis, requests to issue rights to a SPAC Promoter entitling it to receive additional ordinary shares of the Successor Company after completion of the De-SPAC Transaction (“earn-out rights”) on the following conditions:

- (a) the total number of ordinary shares of the Successor Company to be issued under (i) such earn-out rights (“earn-out shares”) and (ii) all Promoter Shares must, altogether, represent an amount not more than 30% of the total number of shares that the SPAC had in issue as at the date of its listing;
- (b) the earn-out rights must only be convertible into earn-out shares subject to the satisfaction of objective performance targets. If those performance targets are determined by changes in the price of the Successor Company’s shares, such targets must be (i) at least 20% higher than the issue price of the SPAC Shares at listing of the SPAC; and (ii) satisfied by reference to the volume weighted average price of the Successor Company’s shares (calculated based on the Exchange’s daily quotations sheets) over a period of not less than 20 trading days within a 30 consecutive trading day period, with such period commencing at least 6 months after the listing of the Successor Company;

- (c) the listing document produced for the SPAC's initial listing must disclose any proposed earn-out rights to be issued to a SPAC Promoter upon the completion of the De-SPAC Transaction, including details of such earn-out rights, e.g. the performance targets;
- (d) any instruments or other securities representing the earn-out rights must only carry the earn-out rights, and must not entitle their holder to any other rights such as voting and dividend rights;
- (e) the material terms of the earn-out rights negotiated and agreed between the parties to the De-SPAC Transaction must be disclosed in the announcement referred to in rule 18B.44 and the listing document referred to in rule 18B.49;
- (f) SPAC shareholders granting approval for the earn-out rights at the general meeting called to approve the De-SPAC Transaction referred to in rule 18B.53, with such earn-out rights included in the resolution approving the De-SPAC Transaction. For the avoidance of doubt, the requirement in rule 18B.54 shall apply and the SPAC Promoter and its close associates must abstain from voting on the relevant resolution; and
- (g) if the De-SPAC Transaction does not complete, the earn-out rights are cancelled and become void.

Note 2: A SPAC Promoter must notify the Successor Company in writing as soon as a performance target for the conversion of all or part of the earn-out rights are met.

Note 3: A Successor Company must announce a notification referred to in Note 2 to this rule as soon as practicable following its receipt.

Note 4: A Successor Company must publish an announcement, as soon as practicable, upon the issuance of the earn-out shares.

- (2) If the Promoter Shares are convertible, they must only be converted into ordinary shares of the Successor Company and such conversion must be on a one-for-one basis. Promoter Shares must only be convertible at or after the completion of a De-SPAC Transaction.

Note: If the SPAC conducts any sub-division or consolidation of shares and, as a result of which, the number of shares into which they are convertible is required to be adjusted, the Exchange will accept a change in the number of Promoter Shares if it is satisfied that any such adjustment is on a fair and reasonable basis, and will not result in the SPAC Promoter being entitled to a higher proportion of Promoter Shares or SPAC Shares than it was originally entitled to as at the date of the listing of the SPAC.

- 18B.30 (1) Promoter Warrants must not be issued at a price that is less than 10% of the issue price of SPAC Shares at the SPAC's initial offering.
- (2) Each Promoter Warrant must not entitle the holder, upon exercise, to receive more than one share in the Successor Company.
- (3) Promoter Warrants must not contain terms that are more favourable than the terms of other warrants issued or granted by the SPAC.

Note: Examples of more favourable terms include: (a) an exemption from the forced exercise of the warrants if the shares of the Successor Company trade above a prescribed price (unless such exemption is also provided to other warrant holders); (b) an option to exercise on a cashless basis (unless such option is also provided to other warrant holders); and (c) a warrant to share conversion ratio that is more favourable than that of the other warrants issued or granted by the SPAC.

- 18B.31 Promoter Warrants must not be exercisable during the period ending 12 months from the date of the completion of a De-SPAC Transaction.

Material Change in SPAC Promoters and SPAC Directors

- 18B.32 In the event of a material change in: (1) any SPAC Promoter who, alone or together with its close associates, controls or is entitled to control 50% or more of the Promoter Shares in issue (or where no SPAC Promoter controls or is entitled to control 50% or more of the Promoter Shares in issue, the single largest SPAC Promoter); (2) any SPAC Promoter referred to in rule 18B.10(1); (3) the eligibility and/or suitability of a SPAC Promoter referred to in (1) or (2); or (4) a director referred to in rule 18B.13, the continuation of the SPAC following such a material change must be approved by:

(a) a special resolution of the shareholders of the SPAC at a general meeting (on which the SPAC Promoter(s) and their respective close associates must abstain from voting) within one month from the date of the material change; and

(b) the Exchange.

Note 1: For the purpose of rule 18B.32(1) and (2), a material change includes but is not limited to:

(a) the departure or addition of a SPAC Promoter; and

(b) a change in control of a SPAC Promoter.

Note 2: For the purpose of rule 18B.32(3), a material change includes but is not limited to:

(a) the suspension or revocation of a SPAC Promoter's licence(s) issued by the Commission; and

(b) breaches of laws, rules and regulations and any other matters bearing on the integrity and/or competence by a SPAC Promoter.

Note 3: For the purpose of rule 18B.32(4), a material change includes but is not limited to the suspension or revocation of such director's licence(s) issued by the Commission and/or resignation of such director, unless a replacement director is appointed within six months of the event to ensure compliance with rule 18B.13. Such an appointment can be one that is made to fill a casual vacancy and is subject to an election by SPAC shareholders at the first annual general meeting following the appointment.

Note 4: The Exchange retains the discretion to determine whether an event constitutes a material change. This may depend upon the manner in which a SPAC is managed and controlled, and the nature of the change (e.g. a simultaneous change in multiple SPAC Promoters that, in aggregate, hold 50% or more of the Promoter Shares would constitute a material change). If there is any uncertainty as to whether an event constitutes a material change, a SPAC should consult the Exchange as soon as possible.

Note 5: No written shareholders' approval will be accepted in lieu of holding the general meeting referred to in rule 18B.32(a).

18B.33 Prior to the vote on the continuation of the SPAC following a material change referred to in rule 18B.32, shareholders of the SPAC (other than holders of Promoter Shares) must be given the opportunity to elect to redeem their shares in accordance with rule 18B.57.

18B.34 If a SPAC fails to obtain the requisite approvals as required under rule 18B.32, rules 18B.73 to 18B.75 in relation to return of funds and de-listing of a SPAC will apply.

DE-SPAC TRANSACTION REQUIREMENTS

Application of New Listing Requirements

18B.35 The terms of a De-SPAC Transaction must include a condition that the transaction will not complete unless listing approval of the Successor Company's shares is granted by the Exchange.

18B.36 A Successor Company must meet all new listing requirements of these rules.

Note: These include all the applicable requirements under Chapter 8, and the application procedures and requirements for a new listing set out in Chapter 9. The Successor Company will be required, among other things, to issue a listing document and pay the non-refundable initial listing fee. Chapters 8A, 18 and 18A will also apply where applicable.

18B.37 (1) A Successor Company must appoint at least one sponsor to assist it with the application for listing in accordance with Chapter 3A. The sponsor(s) must comply with the requirements as set out in Chapter 3A, including, among other things, the requirement in rule 3A.07 such that at least one sponsor must be independent of the Successor Company.

(2) The sponsor(s) must be formally appointed at least two months prior to the date of the listing application of the Successor Company.

Note: If a De-SPAC Target has been considering an application for listing not via a De-SPAC Transaction at the same time as it is considering listing via a De-SPAC Transaction (i.e. it is taking a "dual-track" approach to listing), then the Exchange will take into account the due diligence performed by the sponsor(s) of the De-SPAC Target during the whole dual-track process for the purpose of considering whether the minimum engagement period of two months referred to in rule 18B.37(2) has been satisfied. However, the sponsor(s) must be formally engaged by the Successor Company for the purpose of its listing application.

Eligibility of De-SPAC Targets

18B.38 The Exchange will not consider a Successor Company to be eligible for the purpose of rule 18B.36 if it qualifies for listing only by virtue of the application of Chapter 21 of the Listing Rules.

18B.39 At the time of entry into a binding agreement for the De-SPAC Transaction, a De-SPAC Target must have a fair market value representing at least 80% of the funds raised by the SPAC from its initial offering (prior to any redemptions referred to in rule 18B.57).

Independent Third Party Investment

18B.40 The terms of a De-SPAC Transaction must include investment from third party investors who must meet independence requirements consistent with those that apply to an independent financial adviser under rule 13.84. Such third party investors must be Professional Investors.

Note 1: For the purpose of this rule, references in rule 13.84 to the appointment of an independent financial adviser and its duties should be disregarded.

Note 2: Such independent third party investors must submit a confirmation in writing to the Exchange of their independence as required by this rule.

18B.41 The total funds to be raised from the independent third party investors referred to in rule 18B.40 must constitute at least the following percentage of the negotiated value of the De-SPAC Target as stated in the announcement referred to in rule 18B.44.

Negotiated value of the De-SPAC Target ("A")	Minimum independent third party investment as a percentage of (A)
Less than HK\$2,000,000,000	25%
HK\$2,000,000,000 or more but less than HK\$5,000,000,000	15%
HK\$5,000,000,000 or more but less than HK\$7,000,000,000	10%
HK\$7,000,000,000 or more	7.5%

Note 1: The Exchange may accept a lower percentage than 7.5% in the case of a De-SPAC Target with a negotiated value larger than HK\$10,000,000,000.

Note 2: A SPAC must demonstrate to the Exchange that the required minimum independent third party investments have been committed by the time of the announcement referred to in rule 18B.44.

18B.42 The independent third party investment referred to in rule 18B.41 must include significant investment from sophisticated investors, as defined by the Exchange in guidance published on the Exchange's website, as amended from time to time.

18B.43 The investments made by the independent third party investors referred to in rule 18B.40 must result in their beneficial ownership of the listed shares in the Successor Company.

Note: Other forms of investments (such as investments resulting in the receipt of convertible bonds) will not be counted for the purpose of determining the satisfaction of the thresholds set out in rule 18B.41.

Announcement of De-SPAC Transaction

18B.44 A SPAC must make an announcement of the terms of a De-SPAC Transaction as soon as possible after the terms of the De-SPAC Transaction have been finalised.

18B.45 The content of the announcement referred to in rule 18B.44 must comply with rules 14.58 to 14.62, as applicable.

Note: The Exchange may issue guidance on the Exchange's website, as amended from time to time, on requirements regarding the contents of the announcement referred to in rule 18B.44.

18B.46 A SPAC must submit the announcement referred to in rule 18B.44 to the Exchange prior to publication and must not publish it until the Exchange has no further comments on the announcement.

18B.47 A SPAC must state in the announcement referred to in rule 18B.44 when it expects the listing document for the De-SPAC Transaction to be issued.

18B.48 A SPAC must comply with all applicable rules regarding notifiable transactions and reverse takeovers, including rules 14.35 to 14.37, 14.54 to 14.57 and 14.57A.

Listing Document Requirements

18B.49 A SPAC must issue a listing document for the De-SPAC Transaction that complies with the requirements of these rules.

Note: This means the listing document must comply with the requirements of Chapter 11 including the requirements on profit forecasts of rules 11.16 to 11.19 and the requirements on a reverse takeover in rules 14.63 and 14.69.

18B.50 The listing document referred to in rule 18B.49 must not be issued until the Exchange has confirmed to the SPAC that it has no further comments on the document.

18B.51 The listing document issued for the De-SPAC Transaction must contain:

- (1) all the information required for a new listing applicant by these rules;
- (2) the information required by rules 14.63 and 14.69 for a reverse takeover;

- (3) prominent disclosure of the potential dilution effect of the De-SPAC Transaction (whether resulting from the conversion or exercise of the Promoter Shares, Promoter Warrants and SPAC Warrants, any earn-out rights referred to in Note 1 to rule 18B.29(1) or any other securities issued as part of the De-SPAC Transaction) to the number and value of the holdings of non-redeeming SPAC shareholders;
- (4) the identities of, the amount of investment by, and any other material terms of the investment committed by third party investors to complete the De-SPAC Transaction; and
- (5) how the Successor Company proposes to provide liquidity in the trading of the warrants following the listing of the Successor Company.

18B.52 A SPAC must despatch the listing document referred to in rule 18B.49 to SPAC shareholders at the same time as or before the SPAC gives notice of the general meeting to approve the De-SPAC Transaction.

Shareholder Vote

18B.53 A De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting. Written shareholders' approval will not be accepted in lieu of holding a general meeting.

18B.54 Shareholders and their close associates must abstain from voting on the relevant resolution(s) at the general meeting referred to in rule 18B.53 if they have a material interest in the transaction.

Note: For the avoidance of doubt, SPAC Promoters and their respective close associates will be regarded by the Exchange as having a material interest in the transaction and must abstain from voting.

18B.55 The terms of any third party investment to complete a De-SPAC Transaction must be the subject of the SPAC shareholders' vote at the general meeting referred to in rule 18B.53.

Note: This matter may be voted on together with the De-SPAC Transaction as one resolution, or separately.

De-SPAC Transactions Involving Connected De-SPAC Targets

18B.56 With respect to a De-SPAC Transaction that is a connected transaction under Chapter 14A, a SPAC must comply with the applicable connected transaction requirements in Chapter 14A and, in addition, a SPAC must:

- (1) demonstrate that minimal conflicts of interest exist in relation to the proposed transaction;

- (2) support, with adequate reasons, its claim that the transaction would be on an arm's length basis; and
- (3) include an independent valuation of the transaction in the listing document referred to in rule 18B.49.

Note: Rule 18B.56 (1) and (2) may be evidenced, for example, by:

(a) demonstrating that the SPAC and/or its connected persons are not controlling shareholders of the De-SPAC Target; and

(b) no cash consideration is paid to connected persons, and any consideration shares issued to the connected persons are subject to a lock-up period of 12 months.

SHARE REDEMPTIONS

18B.57 Prior to a general meeting to approve any of the following matters, a SPAC must provide its shareholders with the opportunity to elect to redeem all or part of their holdings of SPAC Shares (for an amount per SPAC Share which must be not less than the price at which the SPAC Shares were issued at the SPAC's initial offering) to be paid out of the monies held in the escrow account referred to in rule 18B.16:

- (1) the continuation of the SPAC following a material change referred to in rule 18B.32;
- (2) a De-SPAC Transaction referred to in rule 18B.53; or
- (3) the extension of any of the deadlines referred to in rule 18B.69 or 18B.70.

18B.58 A SPAC must provide a period for the elections referred to in rule 18B.57 starting on the date of the notice of the general meeting to approve the relevant matter(s) referred to in rule 18B.57 and ending on the date and time of commencement of that general meeting. The notice of the meeting should inform shareholders that they have the opportunity to elect to exercise their redemption right referred to in rule 18B.57.

18B.59 The redemption and the return of funds to the redeeming SPAC shareholders must be completed:

- (1) in the case of a shareholder vote referred to in rule 18B.57(2), within five business days following completion of the associated De-SPAC Transaction; and
- (2) in the case of a shareholder vote referred to in rule 18B.57(1) or (3), within one month of the approval of the relevant resolution at a general meeting.

18B.60 A SPAC must not limit the number of SPAC Shares a shareholder (alone or together with their close associates) may redeem.

- 18B.61 A SPAC must not accept elections to redeem unless those elections are accompanied by delivery of the relevant number of shares.
- 18B.62 SPAC Shares that have been redeemed in accordance with rule 18B.59 must be cancelled.
- 18B.63 A SPAC must announce the amount of share redemption as soon as practicable after the general meeting referred to in rule 18B.57.

SUCCESSOR COMPANY

Open Market in Successor Company's Securities

- 18B.64 The restrictions on marketing to and trading by the public set out in rule 18B.03 will not apply to a Successor Company.
- 18B.65 The minimum number of 300 shareholders of rule 8.08(2) is modified to 100 Professional Investors at the time of listing of a Successor Company.

Note: A Successor Company must meet all other open market requirements applicable to a new listing, including the requirements of rule 8.08(1) that at least 25% of its total number of issued shares are at all times held by the public (subject to the Exchange's discretion to accept a lower percentage as provided for by rule 8.08(1)(d)) and rule 8.08(3) that not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders.

Lock-Up Period

- 18B.66 A SPAC Promoter must not, during the period ending 12 months from the date of the completion of a De-SPAC Transaction, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any securities of the Successor Company that are, as shown in the Successor Company's listing document, beneficially owned by the SPAC Promoter.

Note: The restriction applies to any securities of the Successor Company beneficially owned by the SPAC Promoter as a result of the issue, conversion or exercise of Promoter Shares, Promoter Warrants and earn-out rights referred to in Note 1 to rule 18B.29(1).

- 18B.67 The controlling shareholder(s) of a Successor Company must comply with rule 10.07 on the disposal of their shareholdings (and holdings of other securities, if applicable) in the Successor Company, following its listing.

Announcement on Dilution Impact

- 18B.68 As soon as practicable upon its listing, a Successor Company must publish an announcement setting out the information referred to in rule 18B.51(3), taking into account the actual amount of redemption.

DE-LISTING CONDITIONS

Deadlines

18B.69 A SPAC must publish the announcement referred to in rule 18B.44 within 24 months of the date of its listing.

Note: A SPAC may submit a request to the Exchange for an extension of the deadline referred to in this rule.

18B.70 A SPAC must complete a De-SPAC Transaction within 36 months of the date of its listing.

Note: A SPAC may submit a request to the Exchange for an extension of the deadline referred to in this rule.

Deadline Extensions

18B.71 Any request to the Exchange for an extension of any of the deadlines referred to in rule 18B.69 or 18B.70 must include the grounds for the request and a confirmation to the Exchange that the SPAC has received the approval of the extension by an ordinary resolution of its shareholders at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting).

18B.72 The Exchange retains the discretion to approve or reject an extension request submitted under rule 18B.71.

Note: Any extension granted by the Exchange in response to a request submitted under rule 18B.71 will be for a period of up to six months.

Return of Funds and De-Listing

18B.73 The Exchange may suspend the trading of a SPAC that:

- (1) fails to obtain the requisite approvals in respect of the continuation of the SPAC following a material change referred to in rule 18B.32; or
- (2) fails to meet any of the deadlines (extended or otherwise) referred to in rule 18B.69 or 18B.70.

18B.74 Following a suspension imposed on it under rule 18B.73, a SPAC must, within one month of the suspension, return the funds it raised at its initial offering by distributing or paying to all holders of SPAC Shares the monies held in the escrow account referred to in rule 18B.16 on a pro rata basis, for an amount per SPAC Share that must be not less than the price at which the SPAC Shares were issued at the SPAC's initial offering.

Note: Upon the return of funds under this rule, the Exchange will cancel the listing of the SPAC's securities following the Exchange's publication of an announcement notifying the cancellation of listing.

18B.75 Upon the return of funds made in accordance with rule 18B.74, a SPAC must publish an announcement regarding the return of funds and the upcoming cancellation of listing in accordance with rule 13.25(1).

EXCEPTIONS

18B.76 The following rules do not apply to a SPAC from the time of its listing until the completion of a De-SPAC Transaction:

- (1) rules 6.01(3) and 13.24 on the carrying out, directly or indirectly, of a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of an issuer's securities;
- (2) rule 8.11 only to the extent that a SPAC is permitted to issue Promoter Shares at a nominal value to a SPAC Promoter that carry the right to vote at general meetings and may carry a special right to nominate and/or appoint persons to the board of a SPAC;
- (3) rule 14.82 on the suitability for listing of cash companies; and
- (4) rules 14.89 and 14.90 on the prohibition, in the period of 12 months from the date of listing, of 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 listed issuer as described in the listing document issued at the time of its application for listing.

18B.77 With regards to a sponsor's conduct of due diligence, Paragraph 17 of the Code of Conduct and Practice Note 21 of these rules should be complied with by a sponsor of a SPAC to the extent applicable.

18B.78 Rule 3A.02B on the submission of a listing application for or on behalf of a new applicant is modified to require that a listing application for a SPAC must not be submitted less than one month after the date of the last sponsor's formal appointment.

...

Appendix 8

Listing Fees, Levies and Trading Fees on New Issues and Brokerage

...

7. Brokerage

- (1) In respect of every Qualifying Transaction, except for any placing of securities by (a) an investment company which complies with the requirements of Chapter 21 or (b) a SPAC which complies with the requirements of Chapter 18B, brokerage will be payable by the person subscribing for or purchasing the securities at a rate of 1% of the subscription or purchase price.

...

APPENDIX V: GUIDANCE LETTER ON SPECIAL PURPOSE ACQUISITION COMPANIES

HKEX GUIDANCE LETTER

HKEX-GL[•]-22 (January 2022)

Subject	Guidance on Special Purpose Acquisition Companies
Listing Rules and Regulations	Main Board Chapter 18B

Important note: *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Division on a confidential basis for an interpretation of the Listing Rules, or this letter. Unless otherwise specified, defined terms in the Listing Rules shall have the same meanings in this letter.*

Purpose

1. This letter provides guidance for special purpose acquisition companies (“**SPACs**”) with, or seeking, a listing on the Exchange pursuant to Chapter 18B of the Main Board Listing Rules (“**Rules**”).
2. The definitions used in this guidance letter are the same as those set out in the Rules.

Relevant Listing Rules and Laws

3. Main Board Chapter 18B for SPACs and Successor Companies with, or seeking, a listing.
4. Rule 10.04 on restrictions on existing shareholders’ purchase and subscription and the Existing Shareholders Conditions as referred to in the HKEX Guidance Letter HKEX-GL85-16.
5. Main Board Chapter 14A on connected transactions.
6. Requirements relating to prospectuses contained in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) (“**C(WUMPO)**”).

Guidance

A. Suitability of SPAC Promoters

7. Rule 18B.10 provides that, at the listing of the SPAC and on an ongoing basis for the lifetime of the SPAC, the Exchange must be satisfied as to the character, experience and integrity of a SPAC Promoter and that it is capable of meeting a standard of competence commensurate with its position. For the purpose of demonstrating the above, a SPAC must ensure that:
- (a) at listing and on an ongoing basis, at least one of its SPAC Promoters is a firm that holds a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) licence issued by the Commission (“**Licensing Requirement**”); and
 - (b) it provides the Exchange with the information that the Exchange requests in accordance with guidance published on the Exchange’s website and amended from time to time.

Character, experience and integrity

8. A SPAC Promoter must provide the Exchange with the following information to demonstrate it has the character, experience, integrity and the standard of competence commensurate with the role.

SPAC Promoter Experience

- (a) Their experience as a SPAC Promoter including the role they took on, their level of involvement, the number of years they have held that role and the names of the SPACs they have previously established and/or are now interested in as a SPAC Promoter.
- (b) For each of the SPACs referred to in (a):
 - (i) the amount of funds raised at its initial offering;
 - (ii) a description of the types of target sought for De-SPAC Transaction (e.g. size and sector);
 - (iii) the size and terms of the Promoter Shares;
 - (iv) the time that elapsed between the date of the SPAC’s initial offering and the date of the completion of any De-SPAC Transaction;
 - (v) the amount of funds raised in any independent third party investment as part of any De-SPAC Transaction;
 - (vi) a summary description of the De-SPAC Target that was the subject of any De-SPAC Transaction (including, for example, sector and geographical location, market share, brief historical financial data and its management);
 - (vii) details of the terms of any De-SPAC Transaction (including valuation, conditions to completion, parties involved and any other salient terms);

- (viii) the percentage of SPAC shareholders that redeemed their shares in connection with any De-SPAC Transaction;
- (ix) the percentage of SPAC shareholders that voted against any De-SPAC Transaction;
- (x) the percentage of any value dilution to non-redeeming SPAC shareholders upon exercise of all SPAC Warrants and conversion of all Promoter Shares and all Promoter Warrants in the Successor Company;
- (xi) the market capitalisation of the Successor Company following any De-SPAC Transaction;
- (xii) performance indicators of the Successor Company since any De-SPAC Transaction occurred (absolute performance indicators and performance relative to that of relevant indexes); and
- (xiii) whether the SPAC was liquidated and/or required to return its funds to SPAC Investors.

Investment Management Experience

- (c) Any experience in the professional management of investments on behalf of third party investors and/ or provision of investment advisory services to professional/ institutional investors, including, for each role, a description of:
 - (i) the role and its responsibilities;
 - (ii) the types and geographical coverage of the investments managed;
 - (iii) the fund size;
 - (iv) the fund's investment objectives and policies; and
 - (v) performance indicators such as the net asset value of the managed funds; their absolute performance; and their relative performance compared to that of other major managed funds and relevant indexes.

Other Relevant Experience

- (d) Any other experience relevant to the role of SPAC Promoter for the SPAC seeking a listing (e.g. managing businesses in the sectors in which the SPAC aims to identify targets) with an explanation of how this work experience is relevant to a SPAC Promoter role.

Other Information to be provided

- (e) Details of licences held, including the year they were obtained and the granting institutions.
- (f) Any business interests of the SPAC Promoter that compete or are likely to compete either directly or indirectly with the SPAC for prospective De-SPAC Targets with details of the nature of the competition.

- (g) Any breaches of laws, rules and regulations and any other matters that have a bearing on the integrity and/ or competence of the SPAC Promoter.
- 9. A SPAC must include the information set out in paragraph 8 above in the listing document it produces for the purpose of its listing, updated to the latest practicable date.
- 10. For the purpose of paragraph 8(f) above, existing Rule requirements and relevant guidance¹ on competing interests will apply to SPACs, with references to “controlling shareholders” in those materials being deemed to include “SPAC Promoters”.

Matters that the Exchange will view favourably

- 11. We will view favourably SPAC Promoters that can demonstrate that they have experience:
 - (a) managing assets with an average collective value of at least HK\$8 billion over a continuous period of at least three financial years; or
 - (b) holding a senior executive position (e.g. Chief Executive or Chief Operating Officer) at an issuer that is or has been a constituent of the Hang Seng Index or an equivalent flagship index.
- 12. For the purpose of paragraph 11(b), we will consider a leading and well referenced index, within a particular market, as an equivalent flagship index. For example, the S&P 500 (SPX), NSDAQ-100 Index (NDX) and Dow Jones Industrial Average (DJI) in the US, and FTSE 100 (UKX) in the UK.

Exchange’s approach when considering the suitability of a SPAC Promoter

- 13. It should be noted that the factors set out in paragraphs 8 and 11 above are neither exhaustive nor binding. The Exchange will exercise its discretion on a case-by-case basis, and adopt a holistic approach taking into account all the information provided and all relevant circumstances to determine whether it is satisfied as to the suitability and eligibility of the SPAC Promoter.
- 14. The Exchange reserves the right to request that a SPAC provide further information regarding a SPAC Promoter’s character, experience and integrity for the purpose of compliance with Rule 18B.10.

Licensing Requirement

- 15. The Exchange will consider modifying or waiving the SPAC Promoter Licensing Requirement of Rule 18B.10(1), on a case-by-case basis, if a SPAC Promoter has overseas accreditation issued by a relevant regulatory authority that the Exchange considers to be equivalent to a Type 6 and/or Type 9 licence issued by the Commission.

¹ Rule 8.10; paragraph 27A of Appendix 1 to the Listing Rules; and HKEX Guidance Letter HKEX-GL100-19.

16. A SPAC seeking such a modification or waiver must provide the Exchange with the relevant documentary evidence that the SPAC Promoter has obtained such accreditation. The SPAC must also provide details of the initial and ongoing requirements that the SPAC Promoter must fulfil for the purpose of this overseas accreditation and provide a comparison against the corresponding requirements for a Type 6 and/or Type 9 licence issued by the Commission.

Compliance through SPAC Promoter's controlling shareholder

17. The Exchange will consider a SPAC Promoter that does not hold the requisite SFC licence to have met the requirement of Rule 18B.10(1), if its controlling shareholder satisfies the requirement.
18. This is subject to the condition that: (a) the SPAC demonstrates to the Exchange that sufficient safeguards and/or undertakings are put in place to ensure the controlling shareholder's oversight of the SPAC Promoter's responsibilities; and (b) the controlling shareholder gives an undertaking to the Exchange that they will ensure the SPAC Promoter's compliance with applicable Listing Rules.
19. Rules 18B.32 to 18B.34 would apply if there is a material change in such a controlling shareholder.

B. Listing Applications

20. A SPAC (for its initial listing) and a Successor Company (for a De-SPAC Transaction) must file a new application for listing (Form A1) in accordance with Chapter 9 of the Listing Rules. For a list of documents required to be filed with the Exchange together with the respective listing applications, please refer to the Checklists and Forms for New Applicants available on the Exchange's [website](#).

C. Prospectus and Disclosure Requirements for SPAC Listings and De-SPAC Transactions under C(WUMP)O

At initial listing

21. A SPAC should seek legal advice on the extent to which its listing document must comply with the prospectus requirements of C(WUMP)O.

At De-SPAC Transaction

22. The Exchange will view a De-SPAC Transaction as equivalent to an offering to the public and accordingly, we will vet the listing document issued for the De-SPAC Transaction on the basis that it must meet the relevant prospectus requirements of C(WUMP)O in full.

D. Stock Marker

23. The listed securities of SPAC will be assigned a special stock short name marker. The stock short names of SPAC Shares will end with the marker “Z” and the stock short names of SPAC Warrants will end with the marker “Z Y Y M M” or “Z Y Y” (with YY representing the expiry year and MM representing the expiry month of the SPAC Warrants). This information is also displayed on the HKEX website ([link](#)).

E. Funds in escrow account - meaning of cash equivalent

24. Rule 18B.18 requires the proceeds from a SPAC’s initial offering to be held in the form of cash or cash equivalent.
25. The Exchange considers short-term securities issued by governments with a minimum credit rating of (a) A-1 by Standard & Poor’s Ratings Services; (b) P-1 by Moody’s Investors Service; (c) F1 by Fitch Ratings; or (d) an equivalent rating by a credit rating agency acceptable to the Exchange as cash equivalent for the purpose of Rule 18B.18.

F. Financial Information and Accounting Matters

Disclosure of Significant Accounting Policies and Judgements

26. SPACs with, or seeking, a listing on the Exchange are advised to consult their reporting accountants (and other professional advisers, as appropriate) to evaluate the accounting implications for complex areas arising from SPAC transactions (such as the issuance of shares and warrants) with reference to applicable financial reporting standards.
27. Significant accounting policies and judgements for SPAC transactions and material events that occurred subsequent to the balance sheet date, which have a significant effect on the amounts recognised in the financial statements and/or are relevant to an understanding of the financial information included in the SPAC’s listing document, should be disclosed in the accountants’ report as required under the applicable accounting standards. In particular, in the context of initial listing of SPAC, those disclosures should also cover accounting policies for transactions entered into subsequent to the balance sheet date.

Pro Forma Net Tangible Assets/Liabilities

28. A SPAC’s pro forma net tangible assets/liabilities (as required by paragraph 21 of Appendix 1A to the Rules) must provide sufficient information in accordance with Rule 4.29 to illustrate the potential financial impact arising from a SPAC’s initial listing (including but not limited to the effects of the shares and other financial instruments issued or to be issued by SPACs) by way of pro forma adjustments and notes, where appropriate, so that investors can understand the accounting implications of the shares and financial instruments.

Statement of Working Capital Sufficiency

29. Rule 8.21A requires, among other things, a new applicant to include a working capital statement in its listing document. This also applies to SPACs and the listing document of a SPAC should disclose the basis of the directors' view on its working capital sufficiency as required under paragraph 36 of Appendix 1A to the Rules and the basis upon which the sponsor concurs with the directors' view. For the purpose of this requirement, the relevant cash flow forecast should focus on the working capital needed to cover the operating expenses prior to the De-SPAC Transaction and exclude any amounts of the initial offering proceeds that are subject to redemption or amounts that are expected to be used to fund a De-SPAC Transaction.

G. Sophisticated Independent Third Party Investors

30. Rule 18B.42 states that the independent third party investment referred to in Rule 18B.41 must include significant investment from sophisticated investors, as defined by the Exchange in guidance published on the Exchange's website as amended from time to time.
31. The Exchange will consider this requirement to be met if at least 50% of the value of the independent third party investment referred to in Rule 18B.41 is contributed by no fewer than three investors that demonstrate one of the following characteristics. These investors must either be:
 - (a) an asset management firm with assets under management of at least HK\$8,000,000,000; or
 - (b) a fund with a fund size of at least HK\$8,000,000,000.
32. The SPAC must provide the Exchange with information to demonstrate that the third party investors satisfy the characteristics referred to in paragraph 31.
33. A fund managed by a fund manager that has assets under management of an amount that meets the threshold set out in paragraph 31 would qualify as a sophisticated investor for the purpose of Rule 18B.42.
34. A SPAC must demonstrate to the Exchange that the independent third party investment required under Rules 18B.41 and 18B.42 (i.e. including the investment by the investors referred to in paragraph 31) have been committed by the time of the De-SPAC Announcement.

H. Content of the Announcement of De-SPAC Transaction

35. Rule 18B.39 requires a De-SPAC Target to have a fair market value representing at least 80% of the funds raised by the SPAC from its initial offering.
36. Rules 18B.44 to 18B.48 sets out the requirements relating to the announcement of De-SPAC Transaction ("**De-SPAC Announcement**"). Rule 18B.45 states that the Exchange may issue guidance on the Exchange's website, as amended from time to time, on requirements for the contents of the De-SPAC Announcement.

37. In addition to the requirements set out in Listing Rules 18B.44 to 18B.48, a De-SPAC Announcement must also include:
- (a) a description of all the independent third party investors referred to in Rule 18B.41 (including the sophisticated independent third party investors referred to in paragraph 31 of this letter), and the principal terms of their investments;
 - (b) the identities of, and amounts committed by, the independent third party investors referred to in Rule 18B.41;
 - (c) the negotiated value of the De-SPAC Target and the basis upon which such value was determined;
 - (d) the board of directors' opinion confirming the satisfaction of the requirement in Rule 18B.39 and the basis of such opinion (in a form acceptable to the Exchange); and
 - (e) the material terms of any earn-out rights referred to in Note 1 to Rule 18B.29(1).

I. “Fair Market Value” for the purpose of Rule 18B.39

38. When assessing the board of directors' opinion on the satisfaction of the “fair market value” requirement of Rule 18B.39, the Exchange will adopt a holistic approach and take into account factors such as (a) the basis of the opinion, (b) the negotiated value of the De-SPAC Target as agreed by parties; (c) the sponsor's opinion; (d) the amount committed by, and involvement of and validation by the independent third party investors; and (e) the valuation of comparable companies.

J. Participation by a SPAC Promoter in a SPAC's initial offering and De-SPAC Transaction

39. The Existing Shareholders Conditions referred to in HKEX Guidance Letter HKEX-GL85-16 are dis-applied to permit a SPAC Promoter to participate in: (a) an offering of SPAC Shares at the initial listing of a SPAC; and/or (b) the financing of a De-SPAC Transaction, subject to the conditions below, which may be modified as the Exchange considers necessary:
- (a) the SPAC Promoter meets the definition of a Professional Investor;
 - (b) the SPAC or the Successor Company (as the case may be) complies with all applicable open market requirements, including Rule 18B.05 or 18B.65 (as applicable);
 - (c) the price and terms of subscription of shares by the SPAC Promoter must be substantially the same as, or are not more favourable to the SPAC Promoter, than those available to other investors who are investing in the SPAC or the Successor Company (as the case may be) at the same time as the SPAC Promoter, and any such participation increases the SPAC Promoter's “capital at risk” to align its interests more closely with the interest of ordinary shareholders;

- (d) the SPAC or the Successor Company (as the case may be) and the relevant sponsor must confirm to the Exchange that no preferential treatment has been, nor will be, given to the SPAC Promoter other than the preferential treatment of assured entitlement; and
- (e) the participation is disclosed prominently in the listing document produced for the purpose of the SPAC's listing or the De-SPAC Transaction (as the case may be).

K. Forward Purchase Agreements

- 40. In the US, a SPAC may enter into a forward purchase agreement with the SPAC Promoters or other institutional investors before the initial listing of the SPAC, under which the purchaser would commit to subscribe, and the SPAC would commit to issue, equity in connection with the De-SPAC Transaction at a specified amount. The forward purchase agreement may also contain an option for the purchaser to subscribe for additional equity for up to a specified amount, exercisable at the discretion of the purchaser.
- 41. As a SPAC Promoter would be a connected person of a SPAC², any such forward purchase agreement entered into by the SPAC Promoter or its associate with a SPAC would constitute a connected transaction under the Rules.
- 42. A SPAC wishing to apply for a modification or waiver of these Rules for the purpose of entering into such a forward purchase agreement before the initial listing must provide the Exchange with full details of the proposed agreement at the earliest opportunity. The Exchange will consider such applications on a case-by-case basis based on the individual merits of the case.

L. Loans granted by a SPAC Promoter to a SPAC

- 43. In the US, it is common practice for a SPAC to be advanced loans by its SPAC Promoter to meet the SPAC's working capital needs, normally through promissory notes.

Prohibition of loan which allows conversion at the discretion of a SPAC or a SPAC Promoter

- 44. The Exchange will prohibit such a loan if its terms permit settlement (in full or in part) through conversion of the loan into SPAC securities at the discretion of the SPAC or SPAC Promoter. This is to ensure that a SPAC Promoter is not able to avoid the risk of non-completion of a De-SPAC Transaction that is normally borne by the beneficial owners of SPAC securities.

² See Rule 18B.01.

Application of existing requirements

45. If the terms of a loan to a SPAC state that it will be settled by the issuance of the securities of the SPAC (without the discretion referred to in paragraph 44), those terms of settlement must comply with all requirements relating to the issue of the relevant SPAC securities (e.g. restrictions on terms and issue price) as set out in Chapter 18B³. The SPAC securities to be issued to settle the loan will also be counted in the relevant dilution cap⁴. Please note that Section J of this letter may also apply.
46. As a SPAC Promoter is a connected person of a SPAC⁵, loans granted by SPAC Promoters to a SPAC would be subject to the connected transaction requirements of Chapter 14A of the Rules. Accordingly:
- (a) if the loan will not be settled by the securities of the SPAC, such a loan will be fully exempt from the connected transaction requirements only if such financial assistance is: (a) conducted on normal commercial terms or better; and (b) not secured by the assets of the listed issuer's group⁶; or
 - (b) if the loan will be settled by the securities of the SPAC, such a loan will be subject to compliance with all applicable connected transaction requirements under Chapter 14A of the Listing Rules, including the requirements relating to independent shareholder approval⁷. Listed issuers are also reminded to consider other Rule implications (including those of Chapter 13 and Chapter 15) in relation to the issuance of such securities.

³ Including Rules 18B.07, 18B.22, 18B.30 and 18B.31.

⁴ Rule 18B.23 (with respect to warrants) and Rule 18B.29 (with respect to Promoter Shares).

⁵ Rule 18B.01.

⁶ See Rule 14A.90.

⁷ See Rules 14A.36 to 14A.39.

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