Hong Kong Institute of
Certified Public Accountants
香港會計師公會

16 December 2022

Our Ref.: C/CFC, M136962

The Stock Exchange of Hong Kong Limited
8/F, Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

Dear Sirs,

Re: Consultation Paper on Specialist Technology Companies

The Hong Kong Institute of Certified Public Accountants has considered the Consultation Paper on Specialist Technology Companies, which was referred to our Corporate Finance Committee. Our views on the proposals are contained in the Appendix.

Should you have any questions on this submission, please feel free to contact me at the Institute on 2287 7084 or at <peter@hkicpa.org.hk>.

Yours faithfully,

Peter Tisman
Director, Advocacy & Practice Development

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Appendix

HKEX Consultation Paper on Listing Regime for Specialist Technology Companies:

Response from the Hong Kong Institute of Certified Public Accountants

(A) Specialist Technology

Q1 - Do you agree with the proposed definitions of "Specialist Technology Company", "Specialist Technology Products" and "Specialist Technology"?

Generally, we agree with the direction and underlying objectives of the proposed definitions of "Specialist Technology Company ('STC')", "Specialist Technology Products ('STPs')" and "Specialist Technology ('ST')" in the Consultation Paper on Listing Regime for Specialist Technology Companies ("CP"). However, there are elements of circularity in the proposed definitions. An STC is defined as primarily engaged in the research and development ("R&D") and commercialisation and/or sales of STPs. An STP is a product and/or service that applies ST, and ST is just the application of science and/or technology to products and/or services within an acceptable sector of an STI. Therefore, an STC may simply be a company that applies science or technology (not defined, but not necessarily new) to its products or services, and which is engaged mainly in R&D and sales of those products and services. Prima facie, numerous companies could meet these criteria, so their eligibility to list would depend much more on any additional conditions that they need to meet than the definitions per se.

Overall, we do not have very strong views on the need for Hong Kong to provide a listing regime to accommodate the listing of STCs that cannot meet the profit, revenue or cash flow requirements of the Hong Kong Stock Exchange ("the Exchange")'s Main Board Eligibility Tests for listing in Hong Kong (paragraph 5 of the CP refers). That said, members of the Hong Kong Institute of Certified Public Accountants ('the Institute")'s Corporate Finance Committee ("CFC"), who reviewed the CP noted that there is interest among some overseas STCs to list in Hong Kong via the proposed listing regime.

As acknowledged in the CP, investors could be subject to high risk when investing in these STCs, especially Pre-Commercial Companies ("PCCs") that may be unable to successfully commercialise their products/ services so as to achieve the Commercialisation Revenue Threshold ("CRT") of HK$250m, as proposed in the CP.

Therefore, the introduction of a listing regime for STCs should proceed with some caution, especially due to the specific characteristics of the Hong Kong market, where there is still a substantial proportion of retail investor participation. We note that a number of safeguards are proposed in the CP to address major issues, including:

(i) Setting a high bar for the minimum expected market capitalisation and revenue requirements to be qualified for listing under the new regime
(ii) Imposing a minimum R&D period and investment amount
(iii) Operational track record and management continuity requirements
(iv) Free float and public float requirements
(v) Longer post-Initial Public Offering ("IPO") lock-up period(s)

In principle, we welcome the application of safeguards from an investor protection perspective. However, we believe that the Exchange needs to impose further corporate governance ("CG") requirements on STCs, as, for example, is the case for companies with weighted voting rights. In view of the importance of investors being able to have absolute confidence in the integrity of the financial statements of STCs, we suggest that consideration be given to requiring them to have a full-time, qualified accountant ("QA") on the board, or at least in the top senior management. Other requirements should include more regular, detailed and timely disclosure

obligations, and a requirement to establish a risk committee with independent director ("INED") involvement, possibly even an INED chair, which should be expected to meet a minimum number of times per year, to oversee and manage the specific risks associated with STCs, among other things. The risk committee should provide a report on its work in the interim and annual reports. If there is no QA on the board, the INED involvement in this risk committee should include the INED(s) with professional qualifications or accounting or related financial management expertise (required under Listing Rule ("LR") 3.10). These additional CG-related requirements will be particularly important for PCCs.

We appreciate that overly-stringent requirements could raise questions about the attractiveness and viability of the regime compared with other similar regimes outside Hong Kong, but the Exchange needs to balance investor protection and the facility of the regime. Hong Kong cannot afford for the introduction of new listing routes to be perceived as "a race to the bottom".

Q2 - Do you agree with the list of Specialist Technology Industries and the respective acceptable sectors set out in paragraph 4 of the Draft Guidance Letter (Appendix V to the Consultation Paper)?

In general, we have no particular issue with the list of STIs and the respective acceptable sectors, as set out in paragraph 4 of the Draft Guidance Letter (Appendix V to the CP), although there may be question mark over whether, for example, the electric vehicle ("EV") industry per se can be called an ST these days, since most, if not all, major car manufacturers, are engaged in the production of EVs and there is also a plethora of independent EV developers and manufacturers already well established in the market. It is true that some of them may be involved in R&D on battery technology, etc. but that is a separate issue. There would be a concern if this proposed new listing listing route for STCs were to be used, in effect, just to facilitate more competition in what may already be fairly saturated markets.

Secondly, the list of acceptable sectors should not be treated as cast in stone or exhaustive. There may be other areas that should also be considered for inclusion, if not now then in the future, such as sports technology. We agree, therefore, with the proposal that the Exchange will update its guidance on STIs and acceptable sectors. We suggest that this should be at least annually and when needed, to capture latest cutting-edge technological advancements.

Q3 - Do you agree that the Exchange should take into account the factors set out in paragraph 107 of the Consultation Paper to determine whether a company is "primarily engaged" in the relevant business as referred to in the definition of "Specialist Technology Company"?

We agree with the rationale of this proposal. Please refer to our responses to questions below for more details.

Q4 - Do you agree that the Exchange should retain the discretion to reject an application for listing from an applicant within an acceptable sector if it displays attributes inconsistent with the principles referred to in paragraph 101 of the Consultation Paper?

We agree with this proposal. We also suggest that the Exchange include details of all rejected cases in its "Listing Decisions" issued to the public, for market participants' reference and to promote transparency. The Exchange should also consider providing more guidance to assist market participants, taking into account information derived from applications that may have lapsed, not only those rejected by the Exchange.

Q5 - Do you agree that the Specialist Technology Regime should accommodate the listings of both Commercial Companies and Pre-Commercial Companies?

We agree.

Q6 - If your answer to Question 5 is "Yes", do you agree with the proposed approach to apply more stringent requirements to Pre-Commercial Companies?

From an investor protection perspective, we agree with the proposed approach to applying more stringent requirements to PCCs, as investors will face higher risks when investing in these companies compared with Commercial Companies ("CCs"). However, CFC members suggest that more stringent requirements should be imposed on areas such as mandatory disclosures, use of proceeds, investor profiles, etc. instead of focusing primarily on market capitalisation.

As stated in our submissions in response to previous consultation proposals issued by the Exchange, such as those on Special Purpose Acquisition Companies and Corporate Weighted Voting Rights Beneficiaries, it cannot be assumed that a company with high market capitalisation necessarily has high standards of CG. In fact, the impact on the market will be even more severe on the basis that a larger number of investors, especially retail investors, will suffer if a company with high market capitalisation collapses. The current developments around FTX Cryptocurrency Exchange serve as an example of this. That case also illustrates that relying primarily on institutional investors to perform adequate due diligence, and thus safeguard the interests of all investors, including retail investors, may not be an effective approach, unless further investor protection measures are put in place.

As noted above, CFC members propose that a risk committee should be required to be established, with the involvement of one or more INEDs, possibly even an INED chair, for both CCs and PCCs, to manage and oversee the risks associated with them. As we have also proposed in the response to Q1, we consider that there is a need for a full-time QA on the board, or in the senior management of STCs. If there is no QA on the board, at least one of the INEDs on the proposed risk committee should have accounting qualifications/ financial management expertise.

Q7 - If your answer to Question 5 is "Yes", do you agree with the proposal that all investors, including retail investors, should be allowed to subscribe for, and trade in, the securities of Pre-Commercial Companies?

CFC members consider that, as both Listing Rule ("LR") Chapter 18A (the listing regime for biotech companies) ("LR 18A") and Chapter 8A (the listing regime for companies with weighted voting right structures) companies are open to subscription by retail investors, there are no obvious grounds to treat PCCs differently, provided that certain safeguards, as indicated above, are put in place.

(B) Qualifications of Listing

Q8 - Do you agree that a Commercial Company applicant must have a minimum expected market capitalisation of HK$8 billion at listing?

We consider that the threshold may be too high and could make the regime unviable. CFC members suggest that the threshold should be reduced to HK$4 billion, in line with the requirement under LR 8.05(3) (i.e. the general market capitalisation/ revenue test).

Q9 - Do you agree that a Pre-Commercial Company applicant must have a minimum expected market capitalisation of HK$15 billion at listing?

Again, we consider that the threshold may be too high and could make the regime unviable. CFC members observed that there may be only around 1,200[1] "unicorn" companies worldwide as of October 2022, among which considerably less than half would qualify under the proposed requirement.

CFC members suggest that the threshold be reduced to HK$8 billion (i.e. twice our proposed threshold for a CC).

Q10 - Do you agree that a Commercial Company must have revenue of at least HK$250 million for the most recent audited financial year?

We agree, particularly in view of our proposal to lower the market capitalisation thresholds for listing as an STC, which, if implemented, would mean less reliance purely on valuation.

Q11 - Do you agree that only the revenue arising from the applicant's Specialist Technology business segment(s) (excluding any intersegmental revenue from other business segments of the applicant), and not items of revenue and gains that arise incidentally, or from other businesses, should be recognised for the purpose of the Commercialisation Revenue Threshold?

We agree.

Q12 - Do you agree that (a) a Commercial Company must demonstrate year-on-year growth of revenue derived from the sales of Specialist Technology Product(s) throughout the track record period, with allowance for temporary declines in revenue due to economic, market or industry-wide conditions; and (b) the reasons for, and remedial steps taken (or to be taken) to address, any downward trend in a Commercial Company's annual revenue must be explained to the Exchange's satisfaction and disclosed in the Listing Document?

Generally, we agree, particularly if our proposal to lower the thresholds of market capitalisation for listing is implemented, which would help to differentiate STCs from companies listing under LR 8.05.

Some CFC members, however, consider that such information may not be useful in ensuring the real growth of these companies, on the basis that it may be difficult to ascertain the accuracy of the information provided by the companies and a certain amount of subjective judgement by the Exchange may be required. They suggested that the Exchange could require a CC to provide a feasibility report, prepared by a reputable independent expert in the relevant field of the STC, substantiating the potential of the company's product(s)/ service(s) for investors and the market.

Some CFC members suggested that the track record period could be reduced from three years to two years, in line with the requirement for biotech companies under LR 18A.03(3).

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[1] Based on statistics from CBInsights (https://www.cbinsights.com/research-unicorn-companies) (14 December 2022)

Q13 - Do you agree that a Specialist Technology Company listing applicant must have been engaged in R&D of its Specialist Technology Product(s) for a minimum of three financial years prior to listing?

In principle, we agree, while noting that, under LR 18A and the related Guidance Letter, a biotech company generally is required to have been primarily engaged in R&D for the purposes of developing its core products only for a minimum of twelve months prior to listing. It may be necessary to provide a clearer rationale for these contrasting treatments.

Q14 - Do you agree that, (a) for a Commercial Company, its total amount of R&D investment must constitute at least 15% of its total operating expenditure for each of its three financial years prior to listing; and (b) for a Pre-Commercial Company, its total amount of R&D investment must constitute at least 50% of its total operating expenditure for each of its three financial years prior to listing?

We agree with the proposal for investment in R&D of 15% of total operating expenditure, for CCs.

For a PCCs, we consider that the threshold of 50% may be too onerous. In particular, a PCC could incur large sales expenditure to generate its revenue at the beginning stage of commercialisation, which may dilute its share of R&D costs to below 50%, especially in the year just prior to listing. We suggest reducing the requirement to, say, 30% of total operating expenditure, particularly if the proposed requirement for this threshold to be met for the three financial years prior to listing is maintained. There may be cases where, for example, the bulk of R&D work has been completed within two years and the company may then want to start the commercialisation phase.

Q15 - Do you agree with the proposed method for determining the amount of qualifying R&D investment and the total operating expenditure as set out in paragraph 141 of the Consultation Paper?

While we generally agree with this proposal, some additional clarity may be needed. It is not clear, for example, whether the cost of sales is included in or excluded from total operating expenditure.

Q16 - Do you agree that a Specialist Technology Company listing applicant must have been in operation in its current line of business for at least three financial years prior to listing under substantially the same management?

We generally agree, but again we note the differential with biotech companies under LR 18A.03(3).

Q17 - Do you agree that there must be ownership continuity and control for a Specialist Technology Company listing applicant in the 12 months prior to the date of the listing application? Please give reasons for your views.

We agree.

Q18 - Do you agree that an applicant applying to list under the proposed regime must have received meaningful investment from Sophisticated Independent Investors (SIIs)?

We agree.

Q19 - If your answer to Question 18 is "Yes", do you agree with the independence requirements for a Sophisticated Independent Investor as set out in paragraphs 155 to 157 of the Consultation Paper?

We agree.

Q20 - If your answer to Question 18 is "Yes", do you agree with the proposed definition of a sophisticated investor (including the definition of investment portfolio) as set out in paragraphs 159 to 162 of the Consultation Paper?

We have concerns with the proposed definition of a "sophisticated investor" (including the definition of investment portfolio) as set out in paragraphs 159 to 162 of the CP given the examples quoted, even though they are referred to as "illustrative" only. CFC members consider that the requirements are over demanding. For example, finding many investors with assets under management, fund size or investment portfolio size (as applicable) of at least HK$5 billion, where that value is derived primarily from ST investments and where investee companies exclude consolidated subsidiaries, could be difficult.

Given the quite different definition of "sophisticated investor" in relation to the listing of biotech companies (as set out HKEX Guidance Letter HKEX-GL92-18 (April 2018)), we would suggest that there is scope for more inclusive definition in the case of STCs.

The explanation given for the requirement in relation to sophisticated investors is set out in paragraph 169 of the CP:

Our rationale for requiring an applicant to demonstrate minimum investment from two Pathfinder SIIs as at the time of listing application (see paragraph 167(a)) is to help ensure that the applicant has been subject to extensive due diligence checks, prior to listing, by investors who have taken on significant investment risk. This investment also helps provide independent third-party validation in the absence of a Competent Authority.

In this regard, we would refer the Exchange to our response to Q6 and the case of FTX. While the level of risk taken on by Pathfinder SIIs will be a factor, there is no guarantee that the proposed approach of relying on sophisticated investors, however defined, to perform due diligence will be sufficient to safeguard the interest of other investors, in the absence of additional meaningful CG requirements.

Q21 - If your answer to Question 18 is "Yes", do you agree that as an indicative benchmark for meaningful investment, an applicant should have received third party investment from at least two Sophisticated Independent Investors who have invested at least 12 months before the date of the listing application, each holding such amount of shares or securities convertible into shares equivalent to 5% or more of the issued share capital of the listing applicant as at the date of listing application and throughout the pre-application 12-month period?

Generally, we agree.

Some CFC members suggest shortening the holding period to at least 6 months before the date of the listing application, in line with the similar requirement for biotech companies.

If the Exchange maintains the proposed market capitalisation thresholds for CCs and PCCs of HK$8 billion and HK$15 billion, respectively, requiring a sophisticated investor to hold shares or securities convertible into shares equivalent to 5% or more of the issued share capital of the listing applicant as at the date of listing application would be very demanding. We suggest that this percentage be lower (as it is for biotech companies) unless the market

capitalisation thresholds for CCs and PCCs are reduced to HK$4 billion and HK$8 billion, respectively, as we have proposed in our responses to Q8 and Q9 above.

Q22 - If your answer to Question 18 is "Yes", do you agree that as an indicative benchmark for meaningful investment, the aggregate investment from all Sophisticated Independent Investors should result in them holding such amount of shares or securities convertible into shares equivalent to at least such percentage of the issued share capital of the applicant at the time of listing as set out in Table 4 and paragraph 168 of the Consultation Paper?

Based on our proposed lower market capitalisation thresholds for CCs and PCCs, we would agree.

Q23 - Do you agree that a Pre-Commercial Company applicant must have as its primary reason for listing the raising of funds for the R&D of, and the manufacturing and/or sales and marketing of, its Specialist Technology Product(s) to bring them to commercialisation and achieving the Commercialisation Revenue Threshold?

We agree.

Q24 - Do you agree that a Pre-Commercial Company applicant must demonstrate to the Exchange, and disclose in its Listing Document, a credible path to the commercialisation of its Specialist Technology Products, appropriate to the relevant Specialist Technology Industry, that will result in it achieving the Commercialisation Revenue Threshold?

We agree.

Q25 - If your answer to Question 24 is "Yes", do you agree with the examples proposed in paragraphs 176 to 179 (including the definition of "highly reputable customer") of the Consultation Paper that a Pre-Commercial Company applicant could use to demonstrate a credible path to achieving the Commercialisation Revenue Threshold?

While we agree with the Exchange's rationale to require a PCC applicant to provide documentary evidence to substantiate a credible path to achieving the Commercialisation Revenue Threshold, we have some doubt as to whether the examples proposed in paragraphs 176 to 179 are practicable. Some CFC members point out that while, in principle, it is not difficult for an applicant to enter into non-binding framework agreements with third parties, given that they are "non-binding". However, customers may decline to enter into such agreements with the PCC, if the applicant is required to disclose details of these agreements to the Exchange and in its prospectus, as this may touch on areas of commercial sensitivity from the customers' perspective.

Instead, some CFC members suggest that the Exchange could consider to requiring applicants to provide a feasibility/ assessment report, prepared by highly reputable independent expert in the field, as documentary evidence to increase the credibility and reliability of the companies' application for listing. This may be more practicable and useful for investors.

Q26 - Do you agree that a Pre-Commercial Company applicant must: (a) explain and disclose, in detail, the timeframe for, and impediments to, achieving the Commercialisation Revenue Threshold; and (b) if its working capital (after taking into account the listing proceeds) is insufficient to meet its needs before it achieves the Commercialisation Revenue Threshold, describe the potential funding gap and how it

plans to further finance its path to achieving the Commercialisation Revenue Threshold after listing?

We agree.

Q27 - Do you agree that a Pre-Commercial Company applicant must have available working capital to cover at least 125% of its group's costs for at least the next 12 months (after taking into account the IPO proceeds of the applicant), and these costs must substantially consist of the following: (a) general, administrative and operating costs; and (b) R&D costs?

We agree with this proposal, which is in line with the requirement for biotech companies.

(C) IPO Requirements

Q28 - Do you agree that Independent Institutional Investors should be given a minimum allocation of offer shares in the IPO of Specialist Technology Companies to help ensure a robust price discovery process?

We agree.

Q29 - If your answer to Question 28 is "Yes", do you agree with the definition of Independent Institutional Investors as set out in paragraphs 201 to 202 of the Consultation Paper?

We have no strong view on the definition of independent institutional investors.

Q30 - If your answer to Question 28 is "Yes", do you agree that a Specialist Technology Company must, in addition to meeting the existing requirements on public float, ensure that at least 50% of the total number of shares offered in the initial public offering (excluding any shares to be issued pursuant to the exercise of any over-allotment option) must be taken up by Independent Institutional Investors?

We agree with the objective of ensuring a robust price discovery process, although it is not clear how the Exchange came to the figure of 50%. Some CFC members consider this too demanding and suggest that a lower threshold be applied of, say, a minimum of 25% of the total number of shares offered in the IPO must be taken up by independent institutional investors. We would also refer you to the point raised in our response to Q20, regarding relying too heavily on sophisticated investors to perform adequate due diligence.

Q31 - If your answer to Question 28 is "Yes", do you agree that in the case where a Specialist Technology Company is listed by way of a De-SPAC Transaction, at least 50% of the total number of shares issued by the Successor Company as part of the De-SPAC Transaction (excluding any shares issued to the existing shareholders of the De-SPAC Target as consideration for acquiring the De-SPAC Target) must be taken up by Independent Institutional Investors?

Please refer to our response to Q30 above.

Q32 - Do you agree that in the case of a Specialist Technology Company seeking to list by introduction, the Exchange will consider granting waivers, on a case-by-case basis, from the requirement for the minimum allocation of offer shares to Independent Institutional Investors, if the applicant is able to demonstrate that it is expected to meet the applicable minimum market capitalisation at the time of listing (see paragraph 120

of the Consultation Paper), having regard to its historical trading price (for at least a six-month period) on a Recognised Stock Exchange with sufficient liquidity and a large investor base (a substantial portion of which are independent Institutional Professional Investors)?

We agree.

Q33 - Do you agree that there should be a new initial retail allocation and clawback mechanism for Specialist Technology Companies to help ensure a robust price discovery process?

We have no strong view on this question. At the same time, we suggest the Exchange may take the opportunity to review the effectiveness of the current initial retail allocation and clawback mechanism for all kinds of listings, rather than creating an allocation and clawback mechanism specifically for STCs.

Q34 - If your answer to Question 33 is "Yes", do you agree with the proposed initial allocation and clawback mechanism for Specialist Technology Companies as set out in paragraph 205 of the Consultation Paper?

Please refer to our response to Q33 above.

Q35 - Do you agree that a Specialist Technology Company seeking an initial listing must ensure that a portion of its issued shares with a market capitalisation of at least HK$600 million is free from any disposal restrictions (whether under: contract; the Listing Rules; applicable laws; or otherwise) upon listing (referred to as its "free float")?

While HK$600 million can be set as a bare minimum, it may be better to set the threshold of shares that must be free from any disposal restrictions based on shares representing a percentage of the market capitalisation, say, 7.5% - 10%.

Q36 - Do you agree that the Exchange should reserve the right not to approve the listing of a Specialist Technology Company if it believes the company's offer size is not significant enough to facilitate post-listing liquidity, or may otherwise give rise to orderly market concerns?

We do not agree with the proposal, as it appears to leave too much discretion in the hands of the Exchange and, potentially, to create uncertainty. Any concerns should be adequately addressed through the free float requirements.

Q37 - Do you agree that a Specialist Technology Company applicant's Listing Document must include the additional information set out in paragraph 32 of the Draft Guidance Letter (Appendix V of the Consultation Paper) due to it being a Specialist Technology Company?

We agree.

Q38 - Do you have any other suggestions for additional information that a Specialist Technology Company should include in its Listing Document in order to allow an investor to properly assess and value the company?

Please refer to our responses to other questions for details (e.g., additional CG measures referred to above).

Q39 - Do you agree that existing shareholders should be allowed to participate in the IPO of a Specialist Technology Company provided that the company complies with the existing public float requirement under Rule 8.08(1), the requirement for minimum allocation to Independent Institutional Investors (see paragraph 200 of the Consultation Paper) and the minimum free float requirement (see paragraph 207 of the Consultation Paper)?

We have no issue with this proposal.

Q40 - If your answer to Question 39 is "Yes", do you agree with the proposals set out in paragraph 225 of the Consultation Paper regarding the conditions for existing shareholders subscribing for shares in an IPO?

We have no issue with this proposal.

(D) Post-IPO Requirements

Q41 - Do you agree that the controlling shareholders of a Specialist Technology Company should be subject to a lock-up period of (a) 12 months (for a Commercial Company) and (b) 24 months (for a Pre-Commercial Company)?

Generally, we agree with this proposal.

While some CFC members suggest reducing the lock-up-period (to 6 months for a CC and 12 months for a PCC), others consider that the lock-up periods should be extended. Again, we note the differential with biotech companies.

Q42 - Do you agree with the scope of key persons (as described in paragraph 242 of the Consultation Paper) that should be subject to a restriction on the disposal of their holdings after listing?

We agree with this proposal.

Some CFC members suggest that the Exchange may retain the discretion to grant waivers on a case-by-case basis.

Q43 - If your answer to Question 42 is "Yes", do you agree with the proposed lockup periods on the securities of such key persons and their close associates of (a) 12 months (for a Commercial Company) and (b) 24 months (for a Pre-Commercial Company)?

Generally, we agree with this proposal, although some CFC members suggest reducing the lock-up periods.

Q44 - Do you agree with the proposed lock-up period on the securities of Pathfinders SIIs of (a) six months (for a Commercial Company) and (b) 12 months (for a Pre-Commercial Company)?

We agree.

Q45 - Do you agree that controlling shareholders, key persons and Pathfinder SIIs should be permitted (in accordance with current Rules and guidance) to sell their securities prior to an IPO and offer them for sale in the IPO, such that only the securities retained by them after listing would be subject to the lock-up restrictions?

We have no issue with this proposal, although if too many existing shares are put up for offer in the IPO this may deter other investors. Given the nature of STCs, the information on disposals by existing shareholders should be required to be disclosed prominently in the Listing Document.

Q46 - Do you agree that any deemed disposal of securities by a person resulting from the allotment, grant or issue of new securities by a Specialist Technology Company during a lock-up period would not constitute a breach of the lock-up requirements?

We have no issue with this proposal.

Q47 - Do you agree that a lock-up period in force at the time of the removal of designation as a Pre-Commercial Company should continue to apply unchanged?

We have no strong view on this proposal, although some CFC members consider that the lock-up period in force at the time of the removal of designation as a PCC should be in line with any residual lock-up period had the company all along been a CC.

Q48 - Do you agree that a Specialist Technology Company must disclose in its Listing Document the total number of securities in the issuer held by the persons (as identified in the Listing Document) that are subject to the lockup requirements under the Listing Rules, and that the same information must also be disclosed in the interim and annual reports of the Specialist Technology Company for so long as such persons remain as a shareholder?

We agree.

Q49 - Do you agree with the scope of the additional disclosure in the interim and annual reports of Pre-Commercial Companies as set out in paragraphs 262 and 263 of the Consultation Paper?

Disclosures in the interim report should also include the use of the IPO proceeds, as required in the annual report. Disclosures in both reports should cover the additional CG-related information that we propose above, and include a report from the risk committee, which we propose should be required to be established.

Q50 - Do you agree that only Pre-Commercial Companies should be subject to the ongoing disclosure requirements referred to in Question 49?

We agree with this proposal, so far as the information in paragraphs 262 and 263 of the CP is concerned, but information relating to the additional CG measures that we propose (e.g., report from the risk committee) should continue to be disclosed by CCs, at least until they have reached the thresholds that would have allowed them to list under the normal listing criteria.

Q51 - Do you agree that Pre-Commercial Companies should be subject to a remedial period of 12 months to re-comply with the sufficiency of operations and assets requirement before delisting, in the event that the Exchange considers that a Pre-Commercial Company has failed to meet its continuing obligation to maintain sufficient operations or assets?

We agree.

Q52 - Do you agree that Pre-Commercial Companies must not effect any transaction that would result in a fundamental change to their principal business without the prior consent of the Exchange?

We agree.

Q53 - Do you agree that Pre-Commercial Companies must be prominently identified through a "PC" marker at the end of their stock names?

We agree.

Q54 - Do you agree that the continuing obligations for Pre-Commercial Companies no longer apply once a Pre-Commercial Company has met the requirements in paragraph 270 of the Consultation Paper and ceases to be regarded as a Pre-Commercial Company*?*

We agree.

Q55 - Do you agree with the proposed requirements for Pre-Commercial Companies to demonstrate to the Exchange that they should no longer be regarded as a Pre-Commercial Company (see paragraphs 269 to 272 of the Consultation Paper)?

Generally, we agree with this proposal, although, as indicated in our response to Q47, some CFC members consider that the lock-up period in force at the time of the removal of designation as a PCC should be line with any residual lock-up period required had the company all along been a CC.