Proposed New Regime for the Listing of Specialist Technology Companies on the HKEX

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On 19 October 2022, the Stock Exchange of Hong Kong Limited (the "**HKEX**") published a Consultation Paper on Listing Regime for Specialist Technology Companies (the "**Consultation Paper**"), which seeks to invite comments on the proposed new regime for listing of Specialist Technology Companies on the HKEX.

What are Specialist Technology Companies?

The HKEX proposes to define a "**Specialist Technology Company**" as "a company primarily engaged in the research and development of, and the commercialisation and/or sales of, **Specialist Technology Product(s)**[1] within an **acceptable sector** of a **Specialist Technology Industry** (see below)".

The following are the proposed initial Specialist Technology Industries and their respective acceptable sectors:

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[1] **Specialist Technology Product:** the product and/or service (alone or together with other products or services) that applies Specialist Technology (i.e. science and/or technology applied to products and/or services within an acceptable sector of a Specialist Technology Industry)

Specialist Technology Industries	Acceptable sectors
Next-generation information technology	(a) cloud-based services (b) artificial intelligence
Advanced hardware	(a) robotics and automation (b) semiconductors (c) advanced communication technology (d) electric and autonomous vehicles (e) advanced transportation technology (f) aerospace technology (g) advanced manufacturing (h) quantum computing (i) metaverse technology
Advanced materials	(a) synthetic biological materials (b) smart glass (c) nanomaterials
New energy and environmental protection	(a) new energy generation (b) new energy storage and transmission technology (c) new green technology
New food and agriculture technologies	(a) new food technology (b) new agriculture technology

Proposed Qualifications for Listing and IPO Requirements

Depending on whether the Specialist Technology Companies have achieved meaningful commercialisation of accepted products, the following table sets out the proposed key requirements as to the qualifications for listing of Commercial and Pre-Commercial Specialist Technology Companies:

QUALIFICATIONS FOR LISTING		
	COMMERCIAL COMPANIES	**PRE-COMMERCIAL COMPANIES**
Expected market capitalisation at the time of listing	At least HK$8 billion	At least HK$15 billion
Revenue	At least HK$250 million arising from the company's Specialist Technology business segment(s) for the most recent audited financial year ("**Commercialisation Revenue Threshold**")	N/A
R&D	• Engaged in R&D for at least 3 financial years	

	• R&D investment constitutes at least 15% of total operating expenditure for each of the 3 financial years prior to listing	• R&D investment constitutes at least 50% of total operating expenditure for each of the 3 financial years prior to listing
Operational track record and continuity requirements	• Management continuity for at least 3 financial years • Ownership continuity for at least 12 months	
Third-party investment	• Meaningful investment from **sophisticated independent investors** required: the amount of minimum investment depends on expected market capitalisation of the listing applicant at listing and whether it is a Pre-Commercial or Commercial Specialist Technology Company • **Sophisticated independent investors:** (a) must not be a core connected person of the listing applicant; and (b) must be a sophisticated investor who meets any of the indicative size thresholds or qualification requirements, such as a corporation with assets under management, fund size or investment portfolio size of at least HK$15 billion	
Additional qualification requirements for Pre-Commercial Companies	N/A	• Demonstrate, and disclose in its listing document, a credible path to achieving the Commercialisation Revenue Threshold • Have available working capital to cover at least 125% of its group's costs for at least the next 12 months

The following table sets out the proposed key IPO requirements of Specialist Technology Companies:

<table>
<tr><th colspan="3">IPO REQUIREMENTS</th></tr>
<tr><th></th><th>COMMERCIAL COMPANIES</th><th>PRE-COMMERCIAL COMPANIES</th></tr>
<tr><td>More robust price discovery process</td><td colspan="2">

Allocate at least 50% of the total number of shares offered in IPO to independent institutional investors
Revised initial allocation and clawback mechanism as follows:

<table>
<tr><th rowspan="2"></th><th rowspan="2">Initial</th><th colspan="2">No. of times (x) of over subscription in the public subscription tranche</th></tr>
<tr><th>≥ 10x to < 50x</th><th>≥ 50x</th></tr>
<tr><td>Minimum allocation to retail investors as % of total shares offered in IPO</td><td>5%</td><td>10%</td><td>20%</td></tr>
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</td></tr>
<tr><td>Requirements on free float and offer size</td><td colspan="2">

Free float: minimum free float (being shares not subject to any disposal restrictions) of at least HK$600 million upon listing
Offer size: the HKEX reserves the right not to approve the listing if the offer size is not significant enough to facilitate post-listing liquidity, or otherwise gives rise to orderly market concerns

</td></tr>
<tr><td>Disclosure requirements</td><td colspan="2">

Additional disclosure requirement in the listing document to facilitate IPO investors’ assessment of a Specialist Technology Company, including:
(a) pre-IPO investments and cash flows
(b) products and commercialisation status and prospects
(c) R&D
(d) industry specific information
(e) intellectual property
A warning statement in its listing document that the listing applicant is a Specialist Technology Company and so investment in its securities carries additional risks

</td></tr>
<tr><td>Additional disclosure requirements</td><td>N/A</td><td>

Disclose in its listing document the key stages and milestones to achieve the Commercialisation Revenue Threshold

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		• Warning statement in its listing document on the risk that the company may not generate sufficient revenue to sustain its operations after listing and that it may fail due to a lack of available funds

Post-IPO Requirements

Upon listing, Specialist Technology Companies are subject to the following proposed key requirements:

POST-IPO REQUIREMENTS		
	COMMERCIAL COMPANIES	**PRE-COMMERCIAL COMPANIES**
Post-IPO lock-up	• Post-IPO lock-up on the following persons: (a) controlling shareholders: **12 months** (b) founders, any beneficiaries of weighted voting rights, executive directors and senior management, and key personnel responsible for the technical operations and/or R&D: **12 months** (c) Pathfinder Sophisticated Independent Investors[2]: **6 months**	• Post-IPO lock-up on the following persons: (a) controlling shareholders: **24 months** (b) founders, any beneficiaries of weighted voting rights, executive directors and senior management, and key personnel responsible for the technical operations and/or R&D: **24 months** (c) Pathfinder Sophisticated Independent Investors: **12 months**
Continuing obligations for Pre-Commercial	N/A	• Additional disclosure in the interim and annual reports including the timeframe for, and

[2] **Pathfinder Sophisticated Independent Investors:** sophisticated independent investors investing into the listing applicant at least 12 months prior to the listing application, each holding 5% or more of the issued share capital of the listing applicant of shares or securities convertible into shares as at the date of listing application and throughout the pre-application 12-month period

Companies (until achieving the Commercialisation Revenue Threshold)		any progress made towards, the issuer achieving the Commercialisation Revenue Threshold; and updates on any revenue, profit and other business and financial estimates as provided in the listing document • Shortened remedial period of 12 months for re-compliance with the sufficiency of operations requirement before delisting • Restricted from effecting any transaction that would constitute a material change of business without the prior consent of the HKEX • Identified through the stock marker "PC"

(For all of the proposed requirements, please find the full text of the Consultation Paper here.)

Conclusion

The proposed listing regime for Specialist Technology Companies is intended to diversify the HKEX's mix of listed companies, especially in industries to which a relatively smaller number of listed companies belong when compared to other markets such as the US and Mainland China. In order to address the issues of Specialist Technology Companies, such as their valuation, commercialisation, and reliance on external funding, the HKEX has proposed various qualification requirements for listing, IPO requirements and post-IPO requirements which are different from the traditional requirements. In line with the previous implementation of SPAC and Biotech Company listing regimes, the HKEX puts emphasis on reliable pre-IPO investment and increases the market capitalisation requirement for listing applicants under these new listing regimes.

Indeed, whether the aforementioned modified requirements for the proposed listing regime would suffice for addressing the market's concerns on the listing of Specialist Technology Companies remains to be seen, especially in anticipation of market participants' comments towards the proposed listing regime during the consultation period ending on 18 December 2022. Meanwhile, we will keep a close eye on the latest developments of the proposed listing regime and will endeavour to provide relevant updates once available.

If you would like to know more information about the subjects covered in this publication, please contact:

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