

# Client Alert

## Corporate Finance

24 October 2022

### Hong Kong bourse proposes to create a new channel to listing for “Specialist Technology Companies”

On 19 October 2022, The Stock Exchange of Hong Kong Limited (**Exchange**) published a [consultation paper](#) seeking public feedback on proposals to expand Hong Kong’s existing listing regime by introducing a new channel to listing for “**Specialist Technology Companies**”, namely, companies primarily engaged in the research and development (**R&D**) of, and the commercialisation and/or sales of, products and/or services that apply science and/or technology within acceptable sectors in certain industries (**Specialist Technology Industries**) under a proposed new chapter 18C of the Listing Rules.

Specialist Technology Companies generally carry positive investment characteristics that attract strong investment demand due to their high growth potential. However, many Specialist Technology Companies currently face difficulties in pursuing a listing in Hong Kong because due to the nature of their businesses, either they are still engaged in R&D to bring their products and/or services to commercialisation, or even if they have commercialised, they are not yet able to meet the profit, revenue or cash flow requirements of the Main Board financial eligibility tests under the existing listing regime, despite that some of these companies’ market capitalisation may be well over the minimum threshold for a Hong Kong listing. Therefore, following preliminary discussions with market stakeholders, the Exchange proposes to create a new listing regime for these companies. The Exchange has noted that in developing the rules for this proposed new regime, it has taken into account the unique features of Specialist Technology Companies, including the particular risks and regulatory issues these companies may pose.

#### Scope of “Specialist Technology Companies”

The Exchange proposes that Specialist Technology Companies which may apply to list on the Exchange under the proposed new regime will initially comprise companies in the following industries and sectors:

Specialist Technology Industries	Acceptable sectors
Next-generation information technology	(i) cloud-based services; and (ii) artificial intelligence
Advanced hardware	(i) robotics and automation; (ii) semiconductors; (iii) advanced communication technology; (iv) electric and autonomous vehicles; (v) advanced transportation technology; (vi) aerospace technology; (vii) advanced manufacturing; (viii) quantum computing; and (ix) metaverse technology
Advanced materials	(i) synthetic biological materials; (ii) smart glass; and (iii) nanomaterials
New energy and environmental protection	(i) new energy generation; (ii) new energy storage and transmission technology; and (iii) new green technology
New food and agriculture technologies	(i) new food technology; and (ii) new agriculture technology

*Note: More detailed descriptions of the acceptable sectors are set out in paragraph 4 of the draft guidance letter in Appendix V to the consultation paper.*

The above list of industries and sectors is non-exhaustive in nature as the Exchange may update it from time to time.

The Exchange proposes that a “Biotech Company” relying on a “Regulated Product” (as defined in Chapter 18A of the Listing Rules) as the basis of its listing application must submit an application under Chapter 18A of the Listing Rules and not the proposed new regime.

#### “Commercial Companies” vs “Pre-Commercial Companies”

Under the proposed new regime, Specialist Technology Companies will be categorised into:

- “**Commercial Companies**” – i.e. Specialist Technology Companies that are able to meet the proposed “**Commercialisation Revenue Threshold**” at the time of listing (i.e. **HK\$250 million** for the most recent audited financial year arising from the applicant’s specialist technology business segment); and
- “**Pre-Commercial Companies**” – i.e. Specialist Technology Companies which have not yet met the Commercialisation Revenue Threshold at the time of listing, which will be subject to more stringent requirements given their risk profile.

#### Key requirements under the proposed new regime

The key requirements under the proposed new regime for the two categories of Specialist Technology Companies are summarised in the table below:

	COMMERCIAL COMPANIES	PRE-COMMERCIAL COMPANIES																
<b>QUALIFICATIONS FOR LISTING</b>																		
<b>Expected market capitalisation at the time of listing</b>	<b>≥ HK\$8 billion</b>	<b>≥ HK\$15 billion</b>																
<b>Revenue</b>	<b>Commercialisation Revenue Threshold</b>	N/A																
<b>R&amp;D</b>	Engaged in R&D for <b>≥ three financial years</b>																	
	R&D investment constitutes <b>≥ 15%</b> of total operating expenditure for each of the three financial years prior to listing	R&D investment constitutes <b>≥ 50%</b> of total operating expenditure for each of the three financial years prior to listing																
<b>Operational track record</b>	<b>≥ three financial years</b> of operation under <b>substantially the same management</b> prior to listing																	
<b>Meaningful investment from “Sophisticated Independent Investors”</b>	<p>The listing applicant must have received “<b>meaningful investment</b>” from “<b>Sophisticated Independent Investors</b>” (i.e. sophisticated investors who meet certain indicative size thresholds or qualification requirement, and who are not core connected persons of the listing applicant (excluding a person being connected only by virtue of being a substantial shareholder)).</p> <p>As an indicative benchmark, an applicant meeting the following requirements will generally be considered as having received “meaningful investment”:</p> <ul style="list-style-type: none"> <li>• investment from <b>≥ two Sophisticated Independent Investors</b> at least 12 months prior to the date of the listing application, each holding such amount of shares or securities convertible into shares equivalent to <b>≥ 5%</b> of the issued share capital of the applicant as at the date of listing application and throughout the pre-application 12-month period (<b>Pathfinder SII</b>s); and</li> <li>• at least the following aggregate investment from <u>all</u> Sophisticated Independent Investors as at the time of listing of:</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #d9ead3;">Expected market capitalisation at the time of listing (HK\$)</th> <th style="background-color: #d9ead3;">Minimum total investment (as % of the issued share capital) at the time of listing</th> <th style="background-color: #d9ead3;">Expected market capitalisation at the time of listing (HK\$)</th> <th style="background-color: #d9ead3;">Minimum total investment (as % of the issued share capital) at the time of listing</th> </tr> </thead> <tbody> <tr> <td>≥ 8 billion – &lt; 20 billion</td> <td>20%</td> <td>≥ 15 billion – &lt; 20 billion</td> <td>25%</td> </tr> <tr> <td>≥ 20 billion – &lt; 40 billion</td> <td>15%</td> <td>≥ 20 billion – &lt; 40 billion</td> <td>20%</td> </tr> <tr> <td>≥ 40 billion</td> <td>10%</td> <td>≥ 40 billion</td> <td>15%</td> </tr> </tbody> </table>		Expected market capitalisation at the time of listing (HK\$)	Minimum total investment (as % of the issued share capital) at the time of listing	Expected market capitalisation at the time of listing (HK\$)	Minimum total investment (as % of the issued share capital) at the time of listing	≥ 8 billion – < 20 billion	20%	≥ 15 billion – < 20 billion	25%	≥ 20 billion – < 40 billion	15%	≥ 20 billion – < 40 billion	20%	≥ 40 billion	10%	≥ 40 billion	15%
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<b>Path to commercialisation</b>	N/A	<ul style="list-style-type: none"> <li>• Demonstrate, and disclose in its listing document, a credible path to achieving the Commercialisation Revenue Threshold.</li> <li>• Have available <b>working capital</b> (including the expected IPO proceeds) to cover <b>≥ 125%</b> of its group’s costs (which must substantially consist of general, administrative and operating costs and</li> </ul>																

	COMMERCIAL COMPANIES	PRE-COMMERCIAL COMPANIES											
		R&D costs) for at least the next <b>12 months</b> .											
<b>IPO REQUIREMENTS</b>													
<b>More robust price discovery process</b>	<ul style="list-style-type: none"> <li>Allocate <b>≥ 50%</b> of the total number of shares offered in IPO to institutional professional investors (i.e. persons falling under paragraphs (a) to (i) of the definition of “professional investor” in Section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance) that participate in the placing tranche of an IPO (whether as cornerstone investor or otherwise), excluding existing shareholders and any of their close associates, and core connected persons of the applicant (<b>Independent Institutional Investors</b>).</li> </ul> <p><i>Notes:</i></p> <ol style="list-style-type: none"> <li><i>This proposed requirement would also apply to a Specialist Technology Company listing by way of a De-SPAC Transaction. That means, ≥ 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) would need to be taken up by Independent Institutional Investors.</i></li> <li><i>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 this proposed requirement. The applicant must demonstrate that it is expected to meet the applicable minimum market capitalisation at the time of listing set out above, 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 Investors).</i></li> </ol> <ul style="list-style-type: none"> <li>Revised initial allocation and clawback mechanism as shown below will apply:</li> </ul> <table border="1" data-bbox="481 1146 1423 1346"> <thead> <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 – &lt; 50x</th> <th>≥ 50x</th> </tr> </thead> <tbody> <tr> <td><b>Minimum allocation to retail investors as % of total shares offered in IPO</b></td> <td>5%</td> <td>10%</td> <td>20%</td> </tr> </tbody> </table>				Initial	No. of times (x) of over-subscription in the public subscription tranche		≥ 10x – < 50x	≥ 50x	<b>Minimum allocation to retail investors as % of total shares offered in IPO</b>	5%	10%	20%
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		≥ 10x – < 50x	≥ 50x										
<b>Minimum allocation to retail investors as % of total shares offered in IPO</b>	5%	10%	20%										
<b>Free float upon listing</b> (i.e. shares not subject to any disposal restrictions)	<b>≥ HK\$600 million</b>												
<b>Offer size</b>	The Exchange would expect the listing of a Specialist Technology Company to be accompanied by an offer (including both the placing tranche and the public subscription tranche) of a <b>meaningful size</b> and it 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.												
<b>Additional disclosure requirements in the listing document</b>	<ul style="list-style-type: none"> <li>Additional disclosure requirement 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&amp;D; (d) industry specific information; and (e) intellectual property.</li> <li>A warning statement that the applicant is a Specialist Technology Company and so investment in its securities carries additional risks.</li> </ul>												
	N/A	<ul style="list-style-type: none"> <li>Disclose key stages and milestones for its Specialist Technology Product(s) to achieve the Commercialisation Revenue Threshold.</li> <li>Warning statement should also draw investors’ attention to the risk that the company may not generate sufficient</li> </ul>											

	COMMERCIAL COMPANIES	PRE-COMMERCIAL COMPANIES		
		revenue to sustain its operations after listing and that it may fail due to a lack of available funds.		
<b>POST-IPO REQUIREMENTS</b>				
<b>Lock-up</b>	<b>Persons</b> <ul style="list-style-type: none"> <li>Controlling shareholders</li> <li>Key persons comprising: <ul style="list-style-type: none"> <li>Founders</li> <li>Weighted voting rights beneficiaries</li> <li>Executive directors and senior management</li> <li>Key personnel responsible for the technical operations and/or R&amp;D</li> </ul> </li> </ul>	<b>Securities subject to lock-up</b> Securities beneficially owned as disclosed in listing document (excluding those sold under any offer for sale contained in the listing document)	<b>Lock-up period</b>	
			<b>Commercial Companies</b>	<b>Pre-Commercial Companies</b>
			<b>12 months</b> from the date of listing	<b>24 months</b> from the date of listing
			Securities subscribed for in the IPO	If the shareholder subscribes as a cornerstone investor, the applicable lock-up period for the cornerstone investment (generally at least six months) would apply (including an existing shareholder holding 10% or more of shares in the company before the offering and who subscribe for shares in the IPO, in which case the shareholder is required to subscribe as a cornerstone investor)
	<ul style="list-style-type: none"> <li>All Pathfinder SIIIs</li> </ul>	Securities beneficially owned as disclosed in listing document (excluding those sold under any offer for sale contained in the listing document)	<b>6 months</b> from the date of listing	<b>12 months</b> from the date of listing
			Securities subscribed for in the IPO	If the shareholder subscribes as a cornerstone investor, the applicable lock-up period for the cornerstone investment (generally at least six months) would apply (including an existing shareholder holding 10% or more of shares in the company before the offering and who subscribe for shares in the IPO, in which case the shareholder is required to subscribe as a cornerstone investor)
<b>Continuing obligations until achieving the Commercialisation Revenue Threshold</b>	N/A		<ul style="list-style-type: none"> <li>Additional disclosure in the <b>interim and annual reports</b> including the timeframe for, and any <b>progress</b> 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 (and any subsequent updates to those estimates as published by the Pre-Commercial Company).</li> <li><b>Shortened remedial period of 12 months</b> (rather than the usual 18 months)</li> </ul>	

	COMMERCIAL COMPANIES	PRE-COMMERCIAL COMPANIES
		for re-compliance with the sufficiency of operations requirement before delisting. <ul style="list-style-type: none"> <li>• <b>Restricted</b> from effecting any transaction that would constitute a <b>material change of business</b> without the prior consent of the Exchange.</li> <li>• Identified through the <b>stock marker “PC”</b>.</li> </ul>

Consultation period will end on **18 December 2022**.

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