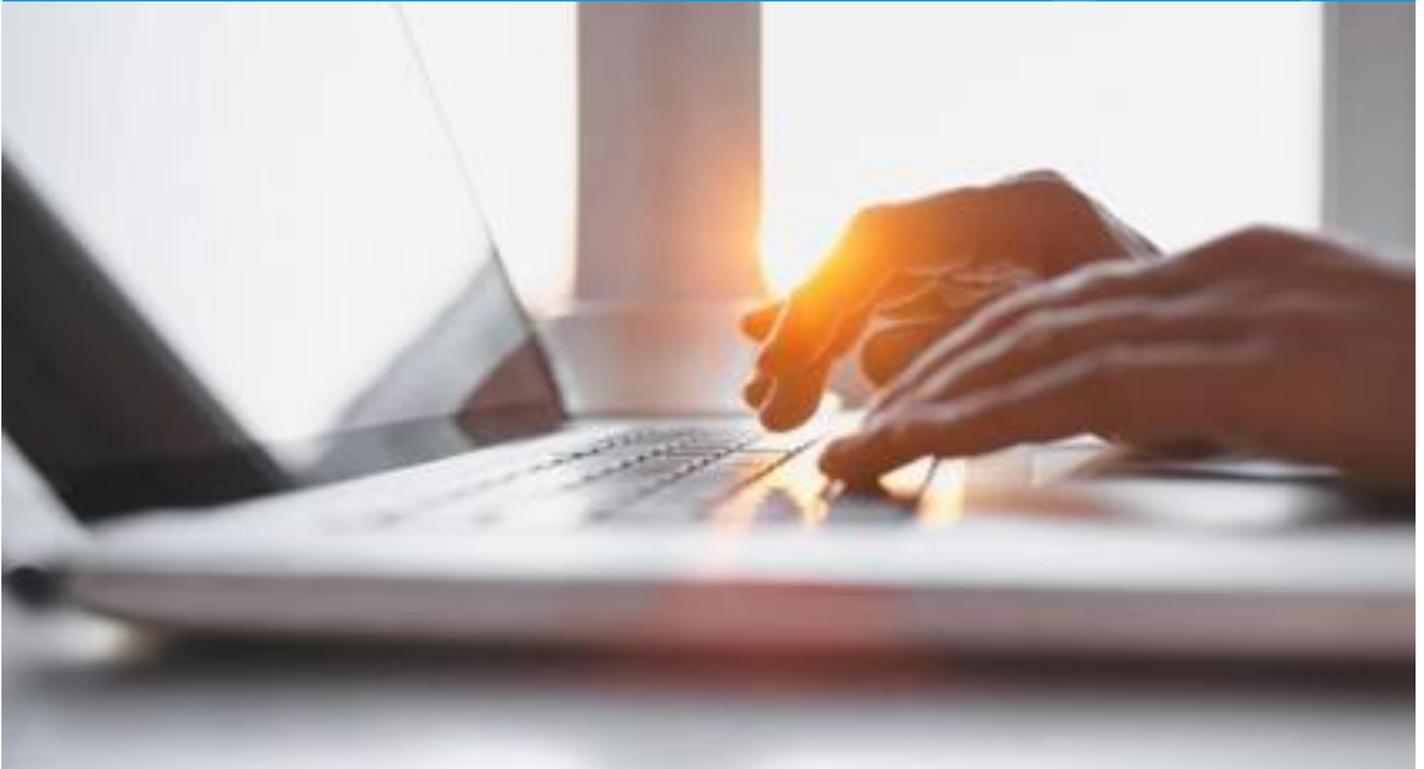


February 2023

New listing regime - Specialist Technology Companies



Overview

In October 2022, The Stock Exchange of Hong Kong Limited (the "**Exchange**") issued a consultation paper (the "**Consultation**") to seek public feedback on proposals for new listing rules for Specialist Technology Companies.

Similar to the launch of the pre-revenue biotech listing regime in 2018 ("**Biotech Listing Regime**"), the Exchange aims to relax the listing requirements for innovative Specialist Technology Companies with high growth potential to list on the Exchange.

With these proposals, the Exchange aims to emulate the success it has received with the Biotech Listing Regime, which has elevated the Exchange into being Asia's largest and the world's second largest biotech fundraising hub. Such success contributes to the continuing competitiveness of the Exchange, and by extension, Hong Kong as one of Asia's leading financial centres.

The Consultation concluded in December 2022, with the regime being expected to be implemented as Chapter 18C of the Rules Governing the Listing of Securities on the Exchange (the "**Listing Rules**") in Q2 2023.

Defining Specialist Technology Companies

Specialist Technology Companies, as defined, are companies primarily engaged in the research and development ("R&D"), commercialisation and/or sales of products within specified acceptable sectors ("**Specialist Technology Industries**") set out as follows:

Specialist Technology Industries	Acceptable Sectors
Next-generation information technology	<ul style="list-style-type: none"> • Cloud-based services • Artificial intelligence
Advanced hardware	<ul style="list-style-type: none"> • Robotics and automation • Semiconductors • Advanced communication technology • Electric and autonomous vehicles • Advanced transportation technology • Aerospace technology • Advanced manufacturing • Quantum computing • Metaverse technology
Advanced materials	<ul style="list-style-type: none"> • Synthetic biological materials • Smart glass • Nanomaterials
New energy and environmental protection	<ul style="list-style-type: none"> • New energy generation • New energy storage and transmission technology • New green technology
New food and agriculture technologies	<ul style="list-style-type: none"> • New food technology • New agriculture technology

Specialist Technology is defined by the Exchange under the proposed rules as science and/or technology applied to products and/or services within an acceptable sector of a Specialist Technology Industry. **Specialist Technology Product(s)** is defined as a product and/or service (alone or together with other products or services) that applies Specialist Technology.

Acknowledging that the concept of Specialist Technology Industries may evolve over time, the Exchange will update the list above from time to time, taking into consideration industry trends and other commercial factors.

Specialist Technology Companies are categorised as either a:

- 1) **Commercial Company:** A company that has achieved at least HK\$250 million in revenue ("**Commercialisation Revenue Threshold**") in the most recent audited financial year; or
- 2) **Pre-commercial Company:** A company engaged in R&D of its products which have not yet been commercialised and as yet has not reached the Commercialisation Revenue Threshold.

Eligibility of listing

The listing eligibility of both Commercial and Pre-commercial Companies are set out below, compared with the traditional listing requirements as set out in Chapter 8 of the Listing Rules:

Eligibility Requirements	Commercial Companies	Pre-commercial Companies	Main Board Test(s)
Trading Record	≥ three financial years	≥ three financial years	≥ three financial years
Market Capitalisation	≥ HK\$8 billion at listing	≥ HK\$15 billion at listing	≥ HK\$4 billion at listing
Revenue	≥ HK\$250 million for the most recent audited financial year	No requirement, but must demonstrate a credible path to achieving the Commercialisation Revenue Threshold	≥HK\$500 million for the most recent audited financial year
Working Capital	No requirement	Working capital (including initial public offering ("IPO") proceeds) able to cover at least 125% of group's costs for at least the next 12 months	No requirement
R&D Investment	≥ 15% of total operating expenditure for each of the three financial years prior to listing	≥ 50% of total operating expenditure for each of the three financial years prior to listing	No requirement
Management Continuity	Under substantially the same management for at least three financial years of operation prior to listing		
Ownership Continuity	Ownership continuity and control in the 12 months prior to the date of the listing application		Ownership continuity and control for the most recent audited financial year
Third Party-investment	<p>Third-party meaningful investment from sophisticated independent investors ("SIIs", see below for the criteria of SIIs) at least 12 months prior to the date of the listing application. Two SIIs (known together as the Pathfinder SIIs) must 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 and continue to hold such shares or securities throughout the pre-application 12-month period.</p> <p>The applicant must also have an aggregate investment from all SIIs meeting a prescribed minimum % of the applicant's issued share capital at the time of listing.</p>		No requirement

Expected market capitalisation of the applicant at listing	Minimum total investment from all SII's expressed as a percentage of the issued share capital of the applicant at listing	
	Commercial Companies	Pre-commercial Companies
HK\$8 billion or more but less than HK\$20 billion (Commercial Companies)	20%	25%
HK\$15 billion or more but less than HK\$20 billion (in the case of Pre-commercial Companies)		
HK\$20 billion or more and less than HK\$40 billion	15%	20%
HK\$40 billion or more	10%	15%

Sophisticated independent investor

An SII must not be a core connected person (as defined in the Listing Rules) of the listing applicant for independence purposes. However, a substantial shareholder of the listing applicant may qualify as an SII if it is only a core connected person of the applicant due to the size of its shareholding in the applicant. Nonetheless, if such a shareholder is a controlling shareholder, it cannot then be considered an SII.

Whether an entity is a sophisticated investor will be determined on a case-by-case basis by the Exchange. The Exchange has provided certain illustrative examples of what it deems as a sophisticated investor:

- a) an asset management firm with assets under management ("**AUM**") of, or a fund with a fund size of, at least HK\$15 billion;
- b) a company having a diverse investment portfolio size of at least HK\$15 billion;
- c) an investor of any of the types above with an AUM, fund size or investment portfolio size (as applicable) of at least HK\$5 billion where that value is derived primarily from Specialist Technology investments; and
- d) a key participant in the relevant upstream or downstream industry with substantial market share and size, as supported by appropriate independent market or operational data.

IPO requirements

Due to the novel nature of the industries involved and the lack of commercial track record of many of the anticipated applicants, price discovery mechanisms in HK may prove inadequate in ascertaining the valuation of the applicants (particularly Pre-commercial Companies). The Exchange, therefore, proposes further robust price discovery processes for Specialist Technology Company listings:

- a) allocation of at least 50% of the total number of shares offered in the IPO to independent institutional investors (meaning Institutional Professional Investors¹ that participate in the placing tranche of an IPO (whether as cornerstone investors² or otherwise), excluding existing shareholders and any of their close associates³, and core connected persons⁴ of the applicant); and
- b) a specified initial retail allocation and claw back mechanism:

	Initial	No. of times (x) oversubscription in the public subscription tranche	
		10x to less than 50x	50x or more
Minimum retail allocation as a percentage of total offer shares	5%	10%	20%

Furthermore, the Exchange proposes certain free float and public float requirements for applicants:

- a) a minimum free float (being shares not subject to any disposal restrictions) of at least HK\$600 million upon listing; however
- b) existing shareholders (including controlling shareholders) of a Specialist Technology Company will be allowed to participate in its IPO as placees or cornerstone investors.

Post IPO lock-up

The Exchange proposes to impose post-IPO lockups on the following parties:

	Commercial Companies	Pre-commercial Companies
Controlling shareholders	12 months	24 months
Key persons (including founders, weighted voting rights beneficiaries, executive directors and senior management, and key personnel responsible for the technical operations and R&D of the Specialist Technology Product(s))	12 months	24 months
Pathfinder SIIs	6 months	12 months
Cornerstone investors	Generally, for at least 6 months	

¹ As defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)

² As defined in rule 18A.01 of the Listing Rules

³ As defined in rule 1.01 of the Listing Rules

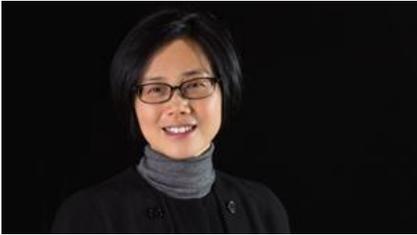
⁴ As defined in rule 1.01 of the Listing Rules

Conclusion

It is anticipated that this new regime will expand the range of companies that can access Hong Kong's deep, liquid, international markets and help to drive growth in talent and investment across innovative frontier industries in the Asia-Pacific region and beyond.

With the Consultation having been concluded in December 2022, we eagerly await the Exchange's final publication of the rules and implementation of the new regime, at which point we will provide a further update.

Contact us



Jane Ng

Partner

T: +852 2533 2828

E: jane.ng@shlegal.com



Denise Tsui

Of counsel

T: +852 2533 2733

E: denise.tsui@shlegal.com



Michael Mok

Associate

T: +852 3166 6910

E: michael.mok@shlegal.com

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