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**HKSE CONSULTS ON THE  
PROPOSED LISTING  
REGIME FOR SPECIALIST  
TECHNOLOGY  
COMPANIES**

**OCTOBER 2022**

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## HKSE CONSULTS ON THE PROPOSED LISTING REGIME FOR SPECIALIST TECHNOLOGY COMPANIES

The Stock Exchange of Hong Kong Limited (**HKSE**) has published a consultation paper on the proposed new listing regime for Specialist Technology Companies by introducing the proposed new Chapter 18C. Comments on the consultation are due by 18 December 2022. This briefing discusses the key proposals under the new Chapter.

### WHAT ARE THE TARGETED COMPANIES?

This is not the first time for the HKSE to introduce a special listing regime to allow listing by companies from certain sectors which do not otherwise meet the conventional financial eligibility tests for listing. Chapter 18A of the Hong Kong Main Board Listing Rules has become effective since 30 April 2018, allowing the listing of biotech companies. As of 10 October 2022, 53 pre-revenue biotech companies were listed on the Hong Kong Stock Exchange, raising a total of approximately HK\$115 billion<sup>1</sup>.

Similarly, with a view to promoting and facilitating the access of capital markets by the Specialist Technology Companies to fund their R&D and commercialisation, HKSE now proposes to introduce a new regime - the "Specialist Technology Regime" - under the new Chapter 18C to welcome companies in sectors including, but not limited to, artificial intelligence (AI), robotics and automation, semiconductors, electric and autonomous vehicles, quantum computing, advanced materials, new energy, food and agriculture technologies.

### I. PROPOSED NEW CHAPTER – "SPECIALIST TECHNOLOGY REGIME"

Chapter 18C - "Specialist Technology Regime" - a regime for companies ("Specialist Technology Company") primarily engaged (whether directly or through its subsidiaries) in the R&D of, and the commercialisation and/or sales of, product and/or services (alone or together with other products or services) that applies science and/or technology within an acceptable sector of a "Specialist Technology Industry" to list on the HKSE.

"Specialist Technology Industry" - a list of industries that would be updated by HKSE from time to time. The initial list comprises:

Specialist Technology Industry	Acceptable sectors falling within each Specialist Technology Industry
Next-generation information technology	Cloud-based services; artificial intelligence
Advance hardware	Robotics and automation; semiconductors; advanced communication technology; electric and autonomous vehicles; advanced transportation technology; aerospace technology;

<sup>1</sup> Data as extracted from the HKSE new listing reports: [https://www2.hkexnews.hk/New-Listings/New-Listing-Information/Main-Board?sc\\_lang=en](https://www2.hkexnews.hk/New-Listings/New-Listing-Information/Main-Board?sc_lang=en)

Specialist Technology Industry	Acceptable sectors falling within each Specialist Technology Industry
	advanced manufacturing; quantum computing; metaverse technology
Advanced materials	Synthetic biological materials; smart glass; nanomaterials
New energy and environmental protection	New energy generation; new energy storage and transmission technology; new green technology
New food and agriculture technologies	New food technology; new agriculture technology

## II. PROPOSED ELIGIBILITY REQUIREMENT

There are two eligibility tests for "Specialist Technology Company" - Commercial Companies (those that have achieved meaningful commercialisation) and Pre-Commercial Companies:

	Commercial Companies	Pre-Commercial Companies
<b>Revenue</b>	≥ HK\$ 250 million from the company's Specialist Technology business segment(s), for the most recent audited financial year	Not applicable
<b>Expected market capitalisation at the time of listing</b>	≥ HK\$ 8 billion	≥ HK\$ 15 billion
<b>Research &amp; development</b>	Engaged in R&D for at least three financial years	
	For each of the three financial years: R&D investment = ≥ <b>15%</b> of total operating expenditure	For each of the three financial years: R&D investment = ≥ <b>50%</b> of total operating expenditure
<b>Other financial requirements</b>	N/A	Having sufficient working capital (including expected IPO proceeds) to cover at least 125% of the costs (which must substantially consist of general, administrative and operating costs and R&D costs) for at least the 12 months from the date of the listing document
<b>Operational track record and management continuity</b>	At least 3 financial years of operation under substantially the same management prior to listing.	
<b>Ownership continuity</b>	Ownership continuity for the most recent audited financial year up to immediately before the offering becomes unconditional	

	Commercial Companies	Pre-Commercial Companies	
<b>Third party investment</b>	<ul style="list-style-type: none"> <li>- (1) "Meaningful investment" from at least 2 "Pathfinder Sophisticated Independent Investors (<b>Pathfinder SII</b>s)" at least 12 months before A1</li> <li>- Each "Pathfinder SII" to hold shares or convertible instrument equivalent to at least 5% of total issued share capital as at the A1 date, throughout at least the 12 months before A1</li> <li>- (2) "Meaningful investment" (including their subscription at IPO) from "Sophisticated Independent Investors"</li> </ul>		
	Expected market cap at listing (HK\$)	Expected minimum total investment (including any subscription at IPO) from all Sophisticated Independent Investors (% of total issued share capital at the time of listing, taking into account shares to be issued at listing)	
		Commercial Companies	Pre-Commercial Companies
	Between 8bn (for Commercial Companies) or 15bn (for Pre-Commercial Companies) and 20bn	20%	25%
	Between 20bn and 40bn	15%	20%
	40bn or more	10%	15%
<ul style="list-style-type: none"> <li>- "Sophisticated Independent Investors": <ul style="list-style-type: none"> <li>- not a core connected person (except purely due to their shareholding at the listing applicant) and</li> <li>- minimum AUM of HK\$ 15 billion, or diverse investment portfolio of minimum HK\$ 15 billion, or minimum AUM of HK\$ 5 billion related to Specialist Technology investments, <u>or</u> key participant in the relevant upstream or downstream industry with substantial market share and size as supported by appropriate independent market or operational data.</li> </ul> </li> </ul>			

**III. PROPOSED DISCLOSURE REQUIREMENT**

	<b>Commercial Companies</b>	<b>Pre-Commercial Companies</b>
<b>Additional disclosure requirements in the listing document</b>	<p>Specific disclosure requirements to facilitate IPO investors' assessment of a Specialist Technology Company, including:</p> <ul style="list-style-type: none"> <li>- Pre-IPO investments and cash flow</li> <li>- Products and commercialisation status and prospects</li> <li>- R&amp;D</li> <li>- Industry specific information</li> <li>- Intellectual property</li> </ul> <p>Warning statement that the listing applicant is a Specialist Technology Company and so investment in its securities carries additional risks</p>	
	N/A	<ul style="list-style-type: none"> <li>- Path to achieving the Commercialisation Revenue Threshold (being HK\$ 250 million for the most recent audited financial year arising from the Specialist Technology business segment)</li> <li>- Key stages and milestones for Specialist Technology Product(s) to achieve Commercialisation Revenue Threshold (being HK\$ 250 million for the most recent audited financial year arising from the Specialist Technology business segment)</li> <li>- Warning statement – to draw investors' attention to the risk that the listing applicant may not generate sufficient revenue to sustain their operations after listing and that it may fail due to a lack of available fund</li> </ul>

#### IV. PROPOSED OFFERING RELATED REQUIREMENT

	Commercial Companies	Pre-Commercial Companies	
<b>Robust price discovery process</b>	- Initial allocation and clawback mechanism as follow:		
		Initial	No of times (x) of over-subscription in the public offering tranche
		10x to 50x	≥ 50x
	<b>Minimum allocation to retail investors as % of total shares offered in IPO</b>	5%	10%
			20%
	- At least 50% of the total shares offered in IPO (before over-allotment option) to be placed to Independent Institutional Investors (i.e. Professional Investors, whether as cornerstone investor or otherwise, excluding existing shareholders or any of their close associates, any core connected persons)		
<b>Free float and offer size</b>	- Free float (shares that are not subject to any lock up): at least HK\$ 600 million at listing		
	- Offer size: the whole global offering should be of a meaningful size and HKSE may not approve the listing if the offer size is not significant enough to facilitate post-listing liquidity or otherwise gives rise to orderly market concerns		
	- No additional requirements/ relaxation on public float requirement		
<b>Post-listing lock up of securities beneficially owned by controlling shareholders, key person sand Pathfinder SII</b>	Controlling shareholders and other key persons (including Founders, WVR beneficiaries (if any), executive directors and senior management, key personnel responsible for the technical operations and R&D of the Specialist Technology Products)		
	12 months	24 months	
	Pathfinder SII		
	6 months	12 months	

**V. PROPOSED POST-LISTING COMPLIANCE**

	Commercial Companies	Pre-Commercial Companies
<b>Stock marker</b>	N/A	Stock code will end with "PC"
<b>Additional disclosure in the interim and annual reports</b>	N/A	<p>Including:</p> <ul style="list-style-type: none"> <li>- Timeframe for and any progress made towards achieving the Commercialisation Revenue Threshold</li> <li>- Updates on any revenue, profit and other business and financial estimates as disclosed in the listing document</li> <li>- Summary of R&amp;D investment during the relevant period</li> <li>- Warning that the company may not achieve the revenue requirement necessary to be designated as a Commercial Company</li> </ul>
<b>Other obligations</b>	N/A	<ul style="list-style-type: none"> <li>- If HKSE considers the company has failed to meet its continuing obligation to maintain sufficient operations or assets, HKSE will give a 12 month remedial period for the company to re-comply or otherwise cancel its listing</li> <li>- The company must not effect any transactions that will result in a fundamental change to its principal business without HKSE's prior consent</li> </ul>



## **VI. Q&A under the current proposal**

- Q1: Is it easier for a Specialist Technology Company to list with a WVR structure?
  - A: No, it will still have to satisfy the stricter requirements under Chapter 8A like any other companies. Given it is likely that the Specialist Technology Company would not meet the HK\$ 1 billion revenue requirement under LR 8A.06, it will have to meet the HK\$40 billion market capitalisation threshold before adopting a WVR structure.
- Q2: How does a Pre-Commercial Company "graduate" from the additional post-listing compliance obligation?
  - A: The Pre-Commercial Company should make an application to HKSE, with published audited financial statements, showing that it has met the "Commercialisation Revenue Threshold" (being HK\$ 250 million for the most recent audited financial year arising from the Specialist Technology business segment) for the most recent audited financial year, OR that it has met at least one of the conventional Main Board eligibility tests. The HKSE will review such application and notify the Pre-Commercial Company.
- Q3: Will the list of Specialist Technology Industries be updated from time to time?
  - A: Yes, it is proposed that HKSE will update the guidance on the Specialist Technology Industries and acceptable sectors from time to time after consultation with the SFC. HKSE will take into account any pre-IPO enquiry from potential listing applicants from the relevant industry or sector, with the following principles: (a) the sector must have high growth potential; (b) the success of participants in the sector can be demonstrated to be attributable to the application, to their core business, of new technologies and/or the application of the relevant science and/or technology within that sector to a new business model, which differentiates from traditional market participants; (c) R&D significantly contributes to the expected value and constitutes a major activity and expenses of participants in the sector.
- Q4: Does the listing applicant have to process "leading-edge" technologies?
  - A: No, but HKSE reserves a right to reject an application for listing if the listing applicant within an acceptable sector displays attributes inconsistent with the principles stated in Q3 above.
- Q5: Can the listing applicant have other business segments other than "Specialist Technology"?
  - A: Yes, if a listing applicant has business segments that do not fall within Specialist Technology Industries, HKSE will take into account (a) whether a substantial portion of the total operating expenditure of the company and senior management resources was dedicated to the R&D of and the commercialisation and/or sales of Specialist Technology Product(s) in the Specialist Technology business segment for at least three financial years prior to listing; (b) whether the basis for investors' valuation and the expected market capitalization of the company is based primarily on the company's Specialist Technology business segment(s), rather than other business segments or assets; and (c) whether the proposed use of proceeds from listing would primarily be applied to its Specialist Technology business segment.

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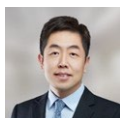
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