

C L I F F O R D
C H A N C E



**HKSE CONCLUSIONS ON
CHAPTER 18C: THE NEW LISTING REGIME FOR
SPECIALIST TECHNOLOGY COMPANIES**

MARCH 2023

CONTENTS

LISTING ELIGIBILITY THRESHOLD RELAXED	2
UPCOMING INDUSTRY EVENT HOSTED BY CLIFFORD CHANCE	3
I. Q&A UNDER THE NEW CHAPTER 18C	4
II. WHAT ARE SPECIALIST TECHNOLOGY COMPANIES?	4
III. WHAT ARE THE ELIGIBILITY REQUIREMENTS?	5
IV. WHAT DO WE NEED TO INCLUDE IN THE LISTING DOCUMENT?	7
V. ARE THERE ANY OFFERING RELATED REQUIREMENTS?	8
VI. WHAT DO WE NEED TO DO POST-LISTING?	9
CONTACTS	10

HKSE CONCLUSIONS ON CHAPTER 18C: THE NEW LISTING REGIME FOR SPECIALIST TECHNOLOGY COMPANIES

The Stock Exchange of Hong Kong Limited (**HKSE**) has today (24 March 2023) published the consultation conclusions on the proposed new listing regime for Specialist Technology Companies by introducing the new Chapter 18C. The new Chapter 18C will become effective on 31 March 2023 where companies may submit a formal listing application under this new listing regime. This briefing discusses the key changes between the consultation proposal and final rules under the new Chapter.¹

LISTING ELIGIBILITY THRESHOLD RELAXED

The HKSE has adopted a more issuer-friendly approach in setting the eligibility criteria for Chapter 18C. The key modifications to the original consultation proposal include:

- (1) lowering the expected market capitalisation:
 - (a) Commercial Companies to \geq HK\$6 billion (from \geq HK\$8 billion);
 - (b) Pre-Commercial Companies \geq HK\$10 billion (from \geq HK\$15 billion);
- (2) allowing greater flexibility in satisfying the requirement of Pathfinder SII's: As at the A1 date and throughout the prior 12 months,
 - (a) up to 5 Pathfinder SII's in aggregate held \geq 10% shareholding or invested \geq HK\$1.5 billion and
 - (b) at least 2 of the Pathfinder SII's, each held \geq 3% shareholding or invested \geq HK\$450 million;
- (3) lowering the R&D expenditure % within the total operating expenditure for Pre-Commercial Companies to:
 - (a) \geq 30% (with revenue of the most recent year being \geq HK\$ 150 and < 250 million) or
 - (b) \geq 50% (with revenue of the most recent year < HK\$150 million);

We appreciate the HKSE and SFC's efforts in considering and adopting market's comments in making the final rules for Chapter 18C, which, compared to the consultation proposal, is expected to attract a greater number of specialist technology issuers for listing in Hong Kong. This new listing regime will bring fresh momentum to capital formation for both startups and established companies with truly innovative and promising technology.

¹ See here for the consultation paper, consultation conclusion by the HKSE: https://www.hkex.com.hk/News/Market-Consultations/2016-to-Present/October-2022-Specialist-Technology-Co?sc_lang=en

We believe this new Chapter 18C, together with the many recent initiatives of the HKSE, will increase the competitiveness and attractiveness of the Hong Kong market to regional and international issuers and investors and demonstrates the continuing efforts of the HKSE to grow market activities and liquidity.

UPCOMING INDUSTRY EVENT HOSTED BY CLIFFORD CHANCE

In April 2023, senior partners from our Hong Kong Equity Capital Markets Group will be hosting a panel discussion to discuss the new Chapter 18C and how it impacts potential issuers, investors and other intermediaries. Speakers include representatives from HKSE, ASIFMA, HKVCA and Clifford Chance.

Following the panel discussion, we will be hosting an industry drinks for attendees to connect with the speakers and industry peers. Invitations will be shared in late March 2023. If you are interested in attending the event, please get in touch with us at events.hk@cliffordchance.com

NEW CHAPTER 18C "SPECIALIST TECHNOLOGY REGIME" - RECAP

I. Q&A UNDER THE NEW CHAPTER 18C

- Q1: Is a pre-IPO enquiry regarding satisfaction of Chapter 18C eligibility requirements a pre-requisite for listing application (similar to a WVR listing applicant)?
A: No. Pre-IPO enquiry would only be required if there are novel and specific issues to consult HKSE.
- Q2: Can sponsor(s)/listing applicant(s) make a listing application under Chapter 18C immediately on the effective date of Chapter 18C?
A: Yes, sponsor(s)/listing applicant(s) can make a listing application under Chapter 18C on 31 March 2023 assuming all other criteria (including the sponsor(s) and sponsor-overall coordinator(s) engagement letter(s)) are met.

II. WHAT ARE SPECIALIST TECHNOLOGY COMPANIES?

Companies 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:

◆ denotes changes from the consultation proposal

Specialist Technology Industry	Acceptable sectors falling within each Specialist Technology Industry
Next-generation information technology	Cloud-based services; artificial intelligence
◆ Advance hardware and software	Robotics and automation; semiconductors; advanced communication technology; electric and autonomous vehicles; advanced transportation technology; aerospace technology; advanced manufacturing; quantum information technology and computing ; metaverse technology
◆ Advanced materials	Synthetic biological materials; advanced inorganic material; advanced composite material ; 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

III. WHAT ARE THE ELIGIBILITY REQUIREMENTS?

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
Revenue	≥ HK\$ 250 million from the company's Specialist Technology business segment(s), for the most recent audited financial year	Not applicable
◆ Expected market capitalisation at the time of listing	≥ HK\$ 6 billion	≥ HK\$ 10 billion
◆ Research & development	Engaged in R&D for at least three financial years, and for (a) two of the three financial years prior to listing and (b) the three financial years prior to listing in aggregate: R&D expenditure ≥ 15% of total operating expenditure	Revenue ≥ HK\$150 and < 250 million: R&D expenditure ≥ 30% of total operating expenditure Revenue < HK\$150 million: R&D expenditure ≥ 50% of total operating expenditure
Other financial requirements	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
◆ Operational track record and management continuity	Management continuity for at least 3 financial years prior to listing.	
◆ Ownership continuity	Ownership continuity for the 12 months prior to A1 up until immediately before listing	

	Commercial Companies	Pre-Commercial Companies														
◆	<ul style="list-style-type: none"> - (1) "Meaningful investment" from 2-5 "Pathfinder Sophisticated Independent Investors (Pathfinder SIIs)": <ul style="list-style-type: none"> a. Up to 5 Pathfinder SIIs, in aggregate, holding shares or convertible instrument equivalent to $\geq 10\%$ of total issued share capital as at the A1 date or invested \geq HK\$1.5 billion, throughout at least the 12 months before A1 date; and b. At least 2 Pathfinding SIIs, each, holding shares or convertible instrument equivalent to $\geq 3\%$ of total issued share capital as at the A1 date or invested \geq HK\$450 million, throughout at least the 12 months before A1 date <p style="color: red;">exclude all subsequent divestments made on or before A1 application</p> <ul style="list-style-type: none"> - (2) "Meaningful investment" (including their subscription at IPO) from "Sophisticated Independent Investors" 															
◆	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, but before exercise of the over-allotment option)														
◆		<table border="1"> <thead> <tr> <th>Commercial Companies</th> <th>Pre-Commercial Companies</th> </tr> </thead> <tbody> <tr> <td>Commercial Company: between \$6bn and \$15bn</td><td>20%</td> <td>25%</td> </tr> <tr> <td>Pre Commercial Company: between \$10bn and \$15bn</td><td></td> <td></td> </tr> <tr> <td>Between \$15bn and \$30bn</td><td>15%</td> <td>20%</td> </tr> <tr> <td>\$30bn or more</td><td>10%</td> <td>15%</td> </tr> </tbody> </table>	Commercial Companies	Pre-Commercial Companies	Commercial Company: between \$6bn and \$15bn	20%	25%	Pre Commercial Company: between \$10bn and \$15bn			Between \$15bn and \$30bn	15%	20%	\$30bn or more	10%	15%
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◆	<ul style="list-style-type: none"> - "Sophisticated Independent Investors": <ul style="list-style-type: none"> - not a core connected person (except purely due to their shareholding at the listing applicant) and - 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, or key participant in the relevant upstream or downstream industry with substantial market share and size as supported by appropriate independent market or operational data. 															

IV. WHAT DO WE NEED TO INCLUDE IN THE LISTING DOCUMENT?

	Commercial Companies	Pre-Commercial Companies
Additional disclosure requirements in the listing document	<p>Specific disclosure requirements to facilitate IPO investors' assessment of a Specialist Technology Company, including:</p> <ul style="list-style-type: none"> - Pre-IPO investments and cash flow - Products and commercialisation status and prospects - R&D - Industry specific information - Intellectual property <p>Warning statement that the listing applicant is a Specialist Technology Company and so investment in its securities carries additional risks</p>	<p>N/A</p> <ul style="list-style-type: none"> - 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) - Key stages and milestones for Specialist Technology Product(s) to achieve Commercialisation Revenue Threshold - 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

V. ARE THERE ANY OFFERING RELATED REQUIREMENTS?

	Commercial Companies	Pre-Commercial Companies						
Robust price discovery process	<ul style="list-style-type: none"> - Initial allocation and clawback mechanism as follow: <table border="1"> <thead> <tr> <th></th> <th>Initial</th> <th>No of times (x) of over-subscription in the public offering tranche</th> </tr> </thead> <tbody> <tr> <td>Minimum allocation to retail investors as % of total shares offered in IPO</td> <td>5%</td> <td>10x to 50x ≥ 50x</td> </tr> </tbody> </table>			Initial	No of times (x) of over-subscription in the public offering tranche	Minimum allocation to retail investors as % of total shares offered in IPO	5%	10x to 50x ≥ 50x
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Minimum allocation to retail investors as % of total shares offered in IPO	5%	10x to 50x ≥ 50x						
	<ul style="list-style-type: none"> - At least 50% of the total shares offered in IPO (before over-allotment option) to be placed to Independent Price Setting Investors <ul style="list-style-type: none"> - Independent Price Setting Investors: Independent Institutional Investors (i.e. Professional Investors, excluding corporate professional investors and individual professional investors) and investors with AUM ≥ HK\$1 billion - Existing shareholder and their close associate, core connected persons are not considered independent 							
Free float and offer size	<ul style="list-style-type: none"> - 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 							
	<p>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)</p>							
	12 months	24 months * (see below)						
Post-listing lock up of securities beneficially owned by controlling shareholders, key persons and Pathfinder SII	<p>Pathfinder SII</p> <table border="1"> <tr> <td>6 months</td> <td>12 months *</td> </tr> <tr> <td></td> <td>* Post listing, if the company is successful with its application to HKSE to remove its designation as a Pre-Commercial Company, then the lock up will expire at the later of: <ul style="list-style-type: none"> (a) the date of the lock up expiry date had it applied for listing as a Commercial Company; and (b) 30th day after the announcement of removal of designation as Pre-Commercial Company. </td> </tr> </table>		6 months	12 months *		* Post listing, if the company is successful with its application to HKSE to remove its designation as a Pre-Commercial Company, then the lock up will expire at the later of: <ul style="list-style-type: none"> (a) the date of the lock up expiry date had it applied for listing as a Commercial Company; and (b) 30th day after the announcement of removal of designation as Pre-Commercial Company. 		
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VI. WHAT DO WE NEED TO DO POST-LISTING?

	Commercial Companies	Pre-Commercial Companies
Stock marker	N/A	Stock code will end with " P "
Additional disclosure in the interim and annual reports	N/A	<p>Including:</p> <ul style="list-style-type: none"> - Timeframe for and any progress made towards achieving the Commercialisation Revenue Threshold - Updates on any revenue, profit and other business and financial estimates as disclosed in the listing document - Summary of R&D investment during the relevant period - Warning that the company may not achieve the revenue requirement necessary to be designated as a Commercial Company
Other obligations	N/A	<ul style="list-style-type: none"> - 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 - The company must not effect any transactions that will result in a fundamental change to its principal business without HKSE's prior consent

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