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CLIENT BRIEFING

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HONG KONG STOCK EXCHANGE PROPOSES NEW LISTING REGIME FOR "SPECIALIST TECHNOLOGY COMPANIES"

Summary

The Hong Kong Stock Exchange issued a consultation paper on 19 October 2022 on a new regime to allow the listing of certain tech companies (termed **Specialist Technology Companies**) that do not meet the Main Board's profit track record requirements. If implemented, it will open the door for companies (including those looking at a dual primary or secondary listing[1]) which also do not yet meet the current HK$500 million revenue threshold - from sectors including AI, robotics, semiconductors, electric vehicles, green tech and new food tech - to list in Hong Kong and raise funds from both retail and institutional investors.

The consultation period ends on 18 December 2022. As the proposals do not affect existing issuers, the Hong Kong Stock Exchange will likely roll out the new chapter within a short period after the conclusion of the consultations.

Specialist Technology Companies

A Specialist Technology Company must primarily engage in the R&D and commercialisation of products / services to which science and/or technology are applied and which fall within an acceptable sector of a "Specialist Technology Industry". The Specialist Technology Industries and acceptable sectors are proposed to be:

(i) **next-generation IT** - cloud-based services and AI;

(ii) **advanced hardware** - robotics and automation, semiconductors, advanced communication tech, electric and autonomous vehicles, advanced transportation, aerospace tech, advanced manufacturing, quantum computing and Metaverse tech;

(iii) **advanced materials** - synthetic biological materials, smart glass and nanomaterials;

(iv) **new energy and environmental protection** - new energy generation, storage and transmission tech, and new green tech; and

(v) **new food and agricultural tech** - new tech for food production and processing (e.g. artificial meat, food waste reduction), and agricultural machinery, equipment and supplies (e.g. agricultural biotech / synthetic biology).

The in-scope industries (which are broadly based on the list of eligible industries for Shanghai's STAR Market) and sectors are contained in a non-exhaustive list in a guidance letter, with the intention that the list will be updated from time to time to reflect changing technology and after consultation with the SFC.[2] Tech companies whose sector is not included can consider making pre-IPO submissions based on factors such as the sector's high growth potential, the application of new tech or application of tech / science to a new business model which differentiates it from traditional market participants, and the significance of R&D to the sector.

Companies with multiple business segments are not precluded if they can show they are *primarily* engaged in the specialist technology business. The Exchange will assess the portion of total operating expenditure dedicated to that business in the last three financial years, the extent to which the company's valuation is derived from that business and the intended use of proceeds.

Qualifications for listing

The listing eligibility criteria depends on whether the Specialist Technology Company has achieved at least HK$250 million in revenue (arising from the specialist tech segments) for the most recent audited financial year (**Commercial Companies**) or whether it has not reached this revenue threshold (**Pre-Commercial Companies**).

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[1] Subject to the relevant issuer meeting the dual primary or secondary listing requirements under Chapter 19 or Chapter 19C.

[2] Biotech companies listing on the basis of a Regulated Product (as defined in Chapter 18A) must go through Chapter 18A and would not be eligible for the new regime. This does suggest that biotech companies whose products are not Regulated Products (e.g. they do not need clinical trials for commercialisation or are not supervised by a competent authority) could explore a listing under the new chapter - this is something to be clarified with the Exchange through the consultation process.

<table>
<tr><th></th><th>Commercial Companies</th><th>Pre-Commercial Companies</th></tr>
<tr><td>Expected market capitalisation at time of listing</td><td>At least HK$8 billion</td><td>At least HK$15 billion</td></tr>
<tr><td rowspan="2">R&D</td><td colspan="2">Engaged in R&D for at least three financial years prior to listing</td></tr>
<tr><td>R&D investment of at least 15% of total operating expenditure for each of the three financial years</td><td>R&D investment of at least 50% of total operating expenditure for each of the three financial years</td></tr>
<tr><td>Operational track record</td><td colspan="2">Generally, at least three financial years of operation under substantially the same management prior to listing</td></tr>
<tr><td>Ownership continuity</td><td colspan="2">12 months prior to listing</td></tr>
<tr><td>Third-party investment</td><td colspan="2">Meaningful investment from “Sophisticated Independent Investors”. The Guidance Letter sets out an indicative benchmark of the level of investment: (i) at least two Sophisticated Independent Investors each holding at least 5% at the time of listing and for 12 months prior (Pathfinder SIIs); and (ii) minimum total investment from all Sophisticated Independent Investors at the time of listing of:
Commercial Companies
<table>
<tr><th>Expected market capitalisation</th><th>Minimum total investment</th></tr>
<tr><td>≥ 8bn to < 20bn</td><td>20%</td></tr>
<tr><td>≥ 20bn to < 40bn</td><td>15%</td></tr>
<tr><td>≥ 40bn</td><td>10%</td></tr>
</table>
Pre-Commercial Companies
<table>
<tr><th>Expected market capitalisation</th><th>Minimum total investment</th></tr>
<tr><td>≥ 15bn to < 20bn</td><td>25%</td></tr>
<tr><td>≥ 20bn to < 40bn</td><td>20%</td></tr>
<tr><td>≥ 40bn</td><td>15%</td></tr>
</table></td></tr>
<tr><td>Commercialisation requirements</td><td>Not applicable</td><td>Demonstrate: (i) a credible path to achieving commercialisation (i.e. at least HK$250 million in revenue). The Exchange will look to binding and non-binding contracts in place with independent customers and the extent of potential contract value realisable within 24 months of listing; and (ii) its use of proceeds will primarily be for R&D and commercialisation of its specialist technology products</td></tr>
<tr><td>Working capital</td><td>Not applicable</td><td>Demonstrate sufficient working capital to cover at least 125% of its costs for the next 12 months</td></tr>
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The proposed regime for Specialist Technology Companies is differentiated from the existing pre-revenue biotech regime, where a recognised governmental authority is involved in overseeing and approving the development of biotech products. While this was much debated, it was clear that in the proposed technology sectors there is no governmental authority that would be able to provide a comparable level of authority and regulatory oversight. Accordingly, the proposed qualification requirements are more heavily reliant on market validation as a safeguard for investors.

Pricing safeguards

In light of the potential difficulties of valuing Specialist Technology Companies and to ensure a robust price discovery that benefits from institutional investors’ professional assessment, the Exchange is proposing a minimum 50% allocation of IPO shares to independent institutional investors and to revise (downwards) the usual initial retail allocation and clawback mechanism. To ensure sufficient post-listing liquidity, the offer size should be “meaningful” with a minimum free float requirement (being shares not subject to any disposal restrictions) of HK$600 million[3].

[3] This refers to shares which are not subject to disposal restrictions and is in addition to meeting the existing “public float” requirement under Listing Rule 8.08(1).

Disclosure

Disclosure requirements in listing documents include details of the company's: (i) pre-IPO investments and cashflows; (ii) commercialisation status and prospects (including the key metrics specified in the Guidance Letter); (iii) R&D investment, experience and risks; (iv) industry-specific standards, regulatory approval and safety data; and (v) IP. Additional disclosures apply to Pre-Commercial Companies regarding their path to achieving commercialisation, with mandatory progress updates in the interim and annual reports. Profit forecasts are not compulsory.

Post-IPO lock-ups

Lock-ups of 12 months (in the case of Commercial Companies) and 24 months (in the case of Pre-Commercial Companies) apply to controlling shareholders, and key persons such as founders, holders of weighted voting rights (**WVR**), executive directors, senior management and key personnel for technical operations and R&D. Lock-ups for Pathfinder SIIs are proposed to be six months (in the case of Commercial Companies) and 12 months (in the case of Pre-Commercial Companies).

WVR

Specialist Technology Companies listing under the proposed chapter are eligible for WVR structures provided they also satisfy the requirements under the WVR regime, including the higher market capitalisation requirement of HK$40 billion.

Conclusion

If implemented, Hong Kong will be the first major Asian stock exchange to open up the market to pre-revenue tech unicorns outside of biotech. Although some may find the requirements and safeguards quite stringent (particularly for Pre-Commercial Companies) and believe the regime could be opened up even further, overall the proposal will be welcomed as a positive development by the market.

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