

Hong Kong's New Listing Rules for Specialist Technology Companies

Skadden

May 2023



**Skadden, Arps, Slate, Meagher & Flom LLP
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Hong Kong's New Listing Rules for Specialist Technology Companies

Following a market consultation process in late 2022, the Stock Exchange of Hong Kong Limited (HKEX) introduced a new regime to permit the listing of companies operating in specified specialist technology sectors.

The new rules became effective on 31 March 2023, and comprise:

- New Chapter 18C to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (Listing Rules).
- A new guidance letter, HKEX-GL115-23, setting out further commentary on the new rules and guidance for listing applicants.

This document summarizes the requirements under the new rules, addressing four key aspects of the new regime:

1. Eligible Companies

- Specialist Technology Industries

2. Eligibility Criteria for Listing

- Investor Definitions

3. IPO Requirements

- Independent Price-Setting Investor Definition

4. Post-IPO Requirements

The information here is intended solely as a summary overview and is not intended to take the place of detailed legal advice based on the specific facts and circumstances in any particular case.

Hong Kong's New Listing Rules for Specialist Technology Companies

1. Eligible Companies

The new rules permit the listing of a **Specialist Technology Company**, which may be either a **Commercial Company** or a **Pre-Commercial Company**. These key terms are defined below.

Specialist Technology Company: A company primarily engaged in the research and development of, and the commercialization of, products or services within one of the sectors of Specialist Technology Industries specified by HKEX. The current list of acceptable industry sectors are set out below in the table.

A company that does not operate in one of the specified industry sectors may apply to HKEX for approval to list as a Specialist Technology Company on a case-by-case basis. HKEX will require the company to demonstrate that:

- It has high growth potential.
- Its success can be demonstrated to be attributable to the application to its 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 it from traditional market participants serving similar consumers or end users.
- Research and development significantly contributes to its expected value and constitutes a major activity and expense.¹

Commercial Company: A Specialist Technology Company with revenue of at least HK\$250 million (US\$31.8 million) for its most recent audited financial year. Only revenue arising from Specialist Technology business segments will be recognized for this purpose.²

Pre-Commercial Company: A Specialist Technology Company that does not have sufficient revenue to qualify as a Commercial Company.

Specialist Technology Industries	
Acceptable sector	Examples of acceptable technologies
Next-generation information technology: Software, platform and infrastructure solutions powered by cloud computing and big data analytics	
Cloud-based services	<ul style="list-style-type: none">- Software as a service (SaaS)- Platform as a service (PaaS)- Infrastructures as a service (IaaS)
Artificial intelligence (AI)	<ul style="list-style-type: none">- Technology and infrastructure enabling AI- AI-empowered algorithm programming- AI solutions
Advanced hardware and software: The development of new hardware and software using advanced technology	
Robotics and automation	<ul style="list-style-type: none">- Robot technology- Internet of Things (IoT) technology- Smart home applications- Smart product designs

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¹ HKEX-GL115-23 paragraph 10

² R 18C.03(4)

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Specialist Technology Industries (*continued*)

Acceptable sector	Examples of acceptable technologies
Semiconductors	<ul style="list-style-type: none"> - Production inputs - Design - Fabrication - Advanced packaging
Advanced communication technology	<ul style="list-style-type: none"> - Next-generation wireless communication systems - Satellite communication
Electric and autonomous vehicles	<ul style="list-style-type: none"> - Electric vehicles - Autonomous vehicles - Location technology
Advanced transportation technology	<ul style="list-style-type: none"> - Transportation technology - Intelligent transport systems
Aerospace technology	<ul style="list-style-type: none"> - Spacecraft development - Space exploration - Utilization of space in defense capabilities
Advanced manufacturing	<ul style="list-style-type: none"> - Additive manufacturing (3D printing) - Digitalized manufacturing
Quantum information technology and computing	<ul style="list-style-type: none"> - Quantum computing - Quantum communication - Quantum precision measurement
Metaverse technology	<ul style="list-style-type: none"> - Virtual reality (VR) - Augmented reality (AR) - Brain-computer interfaces (BCIs)
Advanced materials: The production or integration of new or significantly improved materials to enhance the performance of traditional materials	
Synthetic biological materials	<ul style="list-style-type: none"> - Biopolymers, fibers, optical materials, adhesives and other materials for specialist applications
Advanced inorganic materials	<ul style="list-style-type: none"> - Special glass - Special metals and alloys - Special ceramics
Advanced composite materials	<ul style="list-style-type: none"> - Carbon matrix composite materials and advanced polymers
Nanomaterials	<ul style="list-style-type: none"> - Manufacturing of end products using nanotechnology - Development of nanotechnology

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Specialist Technology Industries (*continued*)

Acceptable sector	Examples of acceptable technologies
New energy and environmental protection: The production of energy from natural sources and the development of networks and infrastructure to support such production and other processes for improving environmental sustainability and resource use and/or energy efficiency	
New energy generation	<ul style="list-style-type: none"> - Solar and wind power, hydropower, hydrogen energy, wave-powered electricity generation and biofuel
New energy storage and transmission technology	<ul style="list-style-type: none"> - New energy storage systems - New energy transmission and distribution networks
New green technology	<ul style="list-style-type: none"> - Environmental remediation - Emissions reduction
New food and agriculture technologies: Food and agriculture technologies applied to agriculture, farming and food processing activities	
New food technology	<ul style="list-style-type: none"> - Artificial meat, sustainable protein technology and synthetic biology in food technology - Food waste reduction
New agriculture technology	<ul style="list-style-type: none"> - Agricultural biotechnology and crop efficiency technology - Agricultural synthetic biology - Farming technology

Full details are set out in the March 2023 [HKEX Guidance Letter HKEX-GL115-23](#).

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2. Eligibility Criteria for Listings

The following table summarizes the eligibility requirements for listing as either a Commercial or Pre-Commercial Specialist Technology Company:

Eligibility Requirement	Commercial Company	Pre-Commercial Company
Specialist Technology Company	<p>Company must be primarily engaged in a Specialist Technology Industry.³</p> <p>Where a company has multiple business segments some of which do not qualify as Specialist Technology Industries, HKEX will look at the following factors to determine whether the company meets the “primarily engaged” requirement:⁴</p> <ul style="list-style-type: none"> - The proportion of total operating expenditure and staff resources spent on research and development, and commercialization or sales of, Specialist Technology Products. - Whether the valuation and expected market capitalization is based primarily on Specialist Technology business. - Whether the proceeds of the IPO will primarily be applied to Specialist Technology business. - The proportion of revenue generated by Specialist Technology business. - The reason for retaining non-Specialist Technology business segments and the history of operations. 	
Trading record period⁵	<p>Three financial years prior to listing operating in the current line of business under substantially the same management⁶</p> <p>(HKEX may agree to reduce this to two years in exceptional circumstances.)</p>	
Ownership continuity⁷	<p>Ownership continuity and control from 12 months prior to the listing application up to the listing date</p>	
Market capitalization at time of listing⁸	HK\$6 billion	HK\$10 billion
Revenue⁹	<p>HK\$250 million revenue arising from Specialist Technology business for most recent audited financial year</p> <p>Year-on-year revenue growth throughout track record period¹⁰</p>	N/A
R&D track record¹¹	<p>Engaged in R&D of Specialist Technology Products for at least three financial years prior to listing</p>	

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³ LR 18C.01

⁴ HKEX-GL115-23 paragraph 16

⁵ LR 18C.03(2)

⁶ LR 18C.03(2)

⁷ HKEX-GL115-23 paragraph 19(b)

⁸ LR 18C.03(3)

⁹ LR 18C.03(4)

¹⁰ HKEX-GL115-23 paragraph 19(c). HKEX will allow for temporary declines in revenue, e.g., due to economic, market or industry conditions.

¹¹ LR 18C.04(1)

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Eligibility Requirement	Commercial Company	Pre-Commercial Company
R&D expenditure: i. on a yearly basis for at least two out of three financial years prior to listing, and ii. on an aggregate basis over all three financial years prior to listing¹²	15% of total operating expenditure	30% of total operating expenditure where revenue for most recent financial year is HK\$150m to HK\$250m 50% of total operating expenditure where revenue for most recent financial year is less than HK\$150m
Pre-IPO investment from Pathfinder Sophisticated Independent Investors (see definition below)¹³	Investments from two to five Pathfinder Sophisticated Independent Investors (SIIs) at least 12 months before the date of listing application satisfying the following requirements: <ul style="list-style-type: none"> - Pathfinder SIIs in aggregate (i) hold $\geq 10\%$ of issued share capital at date of listing application or (ii) invested aggregate of at least HK\$1.5 billion, and - at least two Pathfinder SIIs (i) each hold $\geq 3\%$ of issued share capital at date of listing application or (ii) each invested at least HK\$450 million. 	
Additional requirements for Pre-Commercial Companies	N/A	Demonstrate and disclose a credible path to commercialization. ¹⁴ Working capital (including IPO proceeds) sufficient to cover 125% of costs for 12 months from date of prospectus. These costs must substantially consist of: (1) general, administrative and operating costs; and (2) R&D costs. ¹⁵ Primary reason for listing must be raising funds for R&D, manufacturing or sales and marketing of Specialist Technology Products to bring them to commercialization. ¹⁶

¹² LR 18C.04(2), (3)

¹³ LR 18C.05 and HKEX-GL115-23 paragraph 37(a). HKEX may accept fluctuations in shareholdings, e.g., due to temporary dilution. See: HKEX- GL115-23 paragraph 40.

¹⁴ LR 18C.06 and HKEX-GL115-23 paragraphs 46 to 53

¹⁵ LR 18C.07

¹⁶ HKEX-GL115-23 paragraph 19(a)

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Investor Definitions

Sophisticated Independent Investors

To qualify as a Sophisticated Independent Investor (SII), an investor must be sophisticated and independent. Full details of SII's must be disclosed in the prospectus to substantiate that they qualify as SII's.

Sophisticated

Assessed by HKEX on a case-by-case basis with reference to the investor's investment experience, knowledge and expertise in the relevant field, as demonstrated by its assets under management (AUM), size of its investment portfolio or track record of investments.

The following are examples of investors HKEX would consider sophisticated:

- An asset management firm, fund or company with AUM/fund/portfolio size of at least HK\$15 billion.
- An asset management firm, fund or company with AUM/fund/portfolio size of at least HK\$5 billion where the investments are primarily in Specialist Technology investments.
- A key participant in the relevant upstream or downstream industry with a meaningful market share and size.

Independent

For the purposes of assessing whether an investor is an SII, the following are **not** considered independent:¹⁷

- Core connected persons of the applicant (other than substantial shareholders who are connected solely because of the size of their shareholdings).
- Controlling shareholders or members of a group of controlling shareholders.
- Founders and their close associates.
- Persons acting in concert with the controlling shareholders or founders, subject to HKEX discretion.

Pathfinder SII's

Pathfinder SII's are SII's that have invested in the company and meet the relevant minimum shareholding thresholds set forth in the Eligibility Criteria for Listing table above for at least 12 months prior to the date of the listing application.

¹⁷ HKEX-GL115-23 paragraph 29

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3. IPO Requirements

The following table summarizes the requirements applicable to a Specialist Technology Company IPO:

Requirement	Commercial Company	Pre-Commercial Company
Investment from Sophisticated Independent Investors (SIIs):¹⁸	Total investment from all SIIs in aggregate, including pre-IPO those made as part of the IPO, as a percentage of total issued share capital at the time of listing (before exercise of over-allotment option):	
Where expected market capitalization is less than HK\$15 billion	20%	25%
Where expected market capitalization is between HK\$15 billion and HK\$30 billion	15%	20%
Where expected market capitalization is HK\$30 billion or more	10%	15%
Investment by Independent Price-Setting Investors¹⁹ (see definition below)	Existing shareholders may participate in the IPO. <ul style="list-style-type: none"> - Existing shareholders holding 10% or more of the company may only subscribe in the IPO as a cornerstone investor. - Existing shareholders holding less than 10% may subscribe as a cornerstone or a placee, subject to the sponsor/overall coordinator confirming that no preference in allocation was given to the existing shareholder.²⁰ 	
Initial allocation to public offering²¹	At least 5% of shares offered in the IPO shall be initially allocated to the Hong Kong tranche of the public offering.	
Clawback mechanism²²	Where Hong Kong public offering is 10 times to 50 over-subscribed, 10% of total shares offered must be allocated to the Hong Kong public offering. Where Hong Kong public offering is 50 times or more over-subscribed, 20% of total shares offered must be allocated to Hong Kong public offering.	
Free float²³	In addition to the usual public float requirements in LR 8.08 (public float of at least 25%, or lower if waived by HKEX, there must be HKEX-listed shares with a market capitalization of at least HK\$600m that are not subject to any disposal restrictions.	
Offer size²⁴	Offer must be of a "meaningful size" to facilitate price discovery, subject to HKEX discretion.	
Prospectus disclosure	Specific prospectus disclosure requirements apply to Specialist Technology Companies. ²⁵ These are detailed in section H of the guidance letter HKEX-GL115-23, and include disclosures on pre-IPO investments, burn rate, cash operating cost, products, commercialization, addressable market and market shares, business model, R&D, industry standards, intellectual property, risks and mandatory warning statements. Additional disclosure requirements apply to Pre-Commercial Companies.	

¹⁸ LR 18C.05 and HKEX-GL115-23 paragraph 37(b)

¹⁹ LR 18C.08

²⁰ HKEX-GL115-23 paragraph 71

²¹ LR 18C.09(1)

²² LR 18C.09(2), (3)

²³ LR 18C.10 ²⁴ LR 18C.11

²⁴ LR 18C.11

²⁵ Required pursuant to LR 18C.12

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Independent Price-Setting Investor Definition

The following will qualify as Independent Price-Setting investors:²⁶

- Institutional Professional Investors, as defined by 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 (SFO), which includes banks, insurance companies, collective investment schemes, mandatory provident funds (MPFs), governments and persons providing investment services regulated outside Hong Kong.

- Other investors with AUM/fund size/portfolio size of at least HK\$1 billion.

The following will not qualify as independent price-setting investors:²⁷

- An existing shareholder of the applicant, or their close associates.
- A core connected person of the applicant.

²⁶ HKEX-GL115-23 paragraph 55

²⁷ HKEX-GL115-23 paragraph 56

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4. Post-IPO Requirements

Requirement	Commercial Company	Pre-Commercial Company
Post-IPO lock-up²⁸		
<ul style="list-style-type: none"> - Controlling shareholders - Founders - Executive directors and senior management - Key personnel responsible for technical operations or R&D at time of listing²⁹ - Weighted voting rights (WVR) beneficiaries and their close associates 	12 months	24 months
<ul style="list-style-type: none"> - Pathfinder SIs that company is relying on to satisfy the minimum investment benchmarks (above) and their close associates³⁰ 	6 months	12 months
Disclosure of shareholdings³¹	Company must disclose in prospectus and interim and annual reports the total number of shares held by each person subject to the lock-ups above for so long as that person remains a shareholder.	
Calculation of percentage ratio tests under Listing Rules³²	HKEX may exercise its discretion to disregard the profit ratio and revenue ratio where a company is required to calculate percentage ratio "size tests" to assess notifiable or connected transactions under the Listing Rules, and to consider other alternative indicators of size.	
Stock marker	N/A	Pre-Commercial Companies will be assigned a stock short name that ends with the marker "P". ³³
Additional requirements for Pre-Commercial Companies	N/A	Interim and annual reports must disclose details of R&D and commercialization activities. ³⁴ May not undertake any transaction resulting in fundamental change in business without consent of HKEX. ³⁵

Note: When a Pre-Commercial Company can satisfy either (i) the HK\$250m revenue requirement for its most recent audited financial year or (ii) one of the other financial tests for listing in LR 8.05, the company may apply to HKEX to cease being regarded as a Pre-Commercial Company, in which case the additional requirements above will cease to apply and the "P" stock marker will be removed.³⁶

In such cases, the applicable lock-up periods will be those that would have applied if the issuer had listed as a Commercial Company, or 30 days after the removal of the Pre-Commercial designation, whichever is later.³⁷

²⁸ LR 18C.14(1)

²⁹ See HKEX-GL115-23 paragraphs 75 to 79. Company to identify such personnel based on specific facts and circumstances, with regard to factors including their shareholding, remuneration and seniority. The lock-up continues to apply even if the person ceases to hold the relevant position, either because of a change of position or resignation or otherwise. Note 3 to LR 18C.14.

³⁰ LR 18C.14(2) and HKEX-GL115-23 paragraph 81.

³¹ LR18C.17, 18C.18

³² HKEX-GL115-23 paragraph 84, 85

³³ HKEX-GL115-23 paragraph 74

³⁴ LR 18C.19

³⁵ LR 18C.21

³⁶ LR 18C.22, 18C.23

³⁷ Note 2 to LR 18C.23

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Contacts



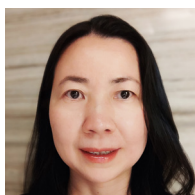
Paloma Wang
Partner / Hong Kong
852.3740.6888
paloma.wang@skadden.com



Kai Sun
Partner / Hong Kong
86.10.6535.5533
kai.sun@skadden.com



Anthony Pang
Counsel / Hong Kong
852.3740.4831
anthony.pang@skadden.com



Lillian Lian
Counsel / Hong Kong
852.3740.4750
lillian.lian@skadden.com



Martina To
Asia Pacific Counsel / Hong Kong
852.3740.4776
martina.to@skadden.com

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One Manhattan West / New York, NY 10001 / 212.735.3000

42/F, Edinburgh Tower, The Landmark / 15 Queen's Road Central, Hong Kong / 852.3740.4700

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