Specialist Technology Companies Effective on 31 March 2023

The stock exchange in Hong Kong (HKEX) added a new Chapter 18C "Specialist Technology Companies" to the Main Board Listing Rules (R18C) which was effective on 31 March 2023. The new set of rules, together with its related new guidance letter (HKEX-GL115-23) (NGL), provide an alternative route for the initial public offering (IPO) of certain technology-based companies. It exempts certain qualifying specialist technology industry companies from the profit requirement for listing on the Main Board and will improve the attractiveness of Hong Kong as a venue for the listing of innovative and progressive companies.

A specialist technology company should not be confused with a biotech company. A "Biotech Company" as defined in Chapter 18A of the Main Board Listing Rules (R18A) relying on a "Regulated Product" (as defined under R18A) as the basis of its listing application must submit an application under R18A regime instead of R18C regime. A Biotech Company that does not satisfy the requirements under R18A cannot submit an application under R18C as an alternative (NGL para 8). However it can submit an application under R18C if it does not base its application on a Regulated Product (NGL para 9).

Specialist Technology Companies - Definition

A list of acceptable sectors of a Specialist Technology Industry (R18C.03(1)) is set out in the NGL para 7, which include:

Specialist Technology Industry	Acceptable Sectors
Next-generation information technology	Cloud-based services Artificial intelligence
Advanced 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 materials Advanced composite materials 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
Others (NGL para 10) - a pre-IPO enquiry submitted to HKEX in consultation with the Securities and Futures Commission	Only if the applicant can demonstrate: (i) it has high growth potential; (ii) its success is attributable to the application of new technologies and/or a new business model; and (iii) research and development (R&D) significantly contributes to its expected value and constitutes a major activity and expense

If a company has multiple business segments and some do not fall under any of the above definitions, HKEX will take into factors set out in NGL para 16 to determine whether the company is "primarily engaged" in the relevant business above.

Conditions for Listing of a Specialist Technology Company

The eligibility requirements differ depending on the applicants' degree of commercialisation: "Commercial Companies" (with revenue of at least HK$250 million for the most recent audited financial year) and "Pre-Commercial Companies" (with revenue less than the HK$250 million threshold with a credible path of achieving the revenue threshold of Commercial Companies) (R18C.01):

Eligibility Requirements	Commercial Companies	Pre-Commercial Companies
Market capitalisation (R18C.03(3))	≥HK$6 billion	≥HK$10 billion
Revenue arising from the applicant's exclusive Specialist Technology business segment (R18C.03(4))	≥HK$250 million for the most recent audited financial year	No requirement
	Must demonstrate a year-on-year growth of revenue throughout the track record period with allowance for temporary declines in revenue (for example, due to economic, market or industry-wide conditions or other factors which were temporary and outside of the applicant's control) (NGL para 19(c))	Must demonstrate a "credible path" towards achieving the HK$250 million threshold (R18C.06A) (NGL para E)
Use of Proceeds	No requirement	Primary reason for listing being the raising of funds for R&D of, and the manufacturing and/or sales and marketing of, its Specialist Technology product(s) to bring them to commercialisation and achieving the revenue threshold of a Commercial Company (NGL para 19(a))
Minimum R&D expenditure ratio threshold (≥3 financial years prior to listing) – amount of R&D expenses as a percentage of its total operating expenditure for the same period (R18C.04(1))	≥15% (R18C.04(2)(a))	≥50% (for companies with revenue < HK$150 million) (R18C.04(2)(b)(c))
		≥30% (for companies with revenue ≥ HK$150 million but < HK$250 million) (R18C.04(2)(b)(c))
	On yearly basis for at least two of the three financial years prior to listing; and on aggregate basis over the three financial years (R18C.04(3))	On yearly basis for at least two of the three financial years prior to listing; and on aggregate basis over the three financial years (R18C.04(3))

Working capital	No requirement	Working capital (including IPO proceeds) able to cover at least 125% of its group's costs for at least the next 12 months from publication date of the listing document (R18C.07)
Sophisticated Independent Investors (SIIs) – minimum total investment from all SIIs at listing (as a percentage of applicant's issued share capital before exercise of over-allotment option) (NGL para 37(b))	20% (for companies with market cap ≥ HK$6 billion to < HK$15 billion)	25% (for companies with market cap ≥ HK$10 billion to < HK$15 billion)
	15% (for companies with market cap ≥ HK$15 billion to < HK$30 billion)	20% (for companies with market cap ≥ HK$15 billion to < HK$30 billion)
	10% (for companies with market cap ≥ HK$30 billion)	15% (for companies with market cap ≥ HK$30 billion)
Pathfinder SIIs - indicative minimum investment benchmark from a group of two to five SIIs (Pathfinder SIIs) (NGL para 37(a))	• in aggregate hold ≥ 10% of an applicant's issued share capital as at the date of listing application and throughout the pre-application 12-month period; or • otherwise have invested an aggregate sum of ≥ HK$1.5 billion in the applicant at least 12 months prior to the application date (excluding any subsequent divestments made on or before the application); Provided that at least two such Pathfinder SIIs: • each hold ≥ 3% of an applicant's issued share capital as at the date of listing application and throughout the pre-application 12-month period; or • otherwise each have invested ≥ HK$450 million in the applicant at least 12 months prior to the application date (excluding any subsequent divestments made on or before the application date)	
Profit	No requirement	
Trading record and management continuity (R18C.03(2))	≥ 3 financial years	
Ownership continuity (NGL para 19(b))	12 months prior to the date of the listing application and up until the time immediately before the offering and/or placing becomes unconditional	

Sophisticated Independent Investors

As it is difficult to value a Specialist Technology Company, the HKEX requires that the Specialist Technology Company seeking to list must have received meaningful investment from investors who are not core connected persons, controlling shareholders or founder(s) (including their close associates) of the Specialist Technology Company (excluding a person who is regarded as a core connected person only because of the size of his or her shareholding in the Specialist Technology Company) (R18C.05) (NGL para 29).

HKEX would assess whether an investor is "sophisticated" on a case-by-case basis. Some examples of the types of "sophisticated" investor were given by HKEX for illustrative purpose (NGL paras 31, 32):

- an asset management firm with assets under management (AUM) of, or a fund with a fund size of, at least HK$15 billion;
- a company having a diverse investment portfolio size of at least HK$15 billion;
- 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
- 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 of a Specialist Technology Company

The following applies for both Commercial Companies and Pre-Commercial Companies:

Minimum free float	shares (listed on HKEX not subject to any disposal restrictions) with a market capitalisation of at least HK$600 million upon listing (R18C.10)
Offer size	an offer (including both the placing tranche and the public subscription tranche) of a meaningful size - HKEX reserves the right not to approve the listing if the offer size is not significant enough to facilitate price discovery, or may otherwise give rise to orderly market concerns (R18C.11)
Optimised price discovery process	≥ 50% of offer shares (before exercise of over-allotment option) must be taken up by "Independent Price Setting Investors" (comprising Institutional Professional Investors as defined under section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance; and other types of investors with AUM, fund size or investment portfolio size of at least HK$1 billion that satisfy the independence requirement (not independent if it is (a) an existing shareholder of the applicant, or a close associate of such an existing shareholder; or (b) a core connected person of the applicant)). (R18C.08) (NGL para F)
Minimum allocation of shares to public subscription tranche (as a percentage of total offer shares) (R18C.09)	5% - initial allocation
	10% - over-subscription of 10x to < 50x
	20% - over-subscription of ≥50x
Existing shareholders subscribing IPO shares (NGL para I)	holder of < 10% may subscribe as corner investor or placee
	holder of ≥10% may subscribe as corner investor

IPO Disclosure Requirements

HKEX expects additional disclosure to be made in the listing document in the following key areas:

Key Areas	Disclosure Recommendations
Information on Pre-IPO Investments	Disclose also the implied pre-money and post-money valuations of each round of pre-IPO investment and reasons for material fluctuations in valuation
Burn rate	Historical and future burn rate
Cash operating cost	Historical and future cash operating costs
Products	Disclose key products, existing stage and development timetable, and technical capability and commercial viability
Disclosure on commercialisation status and prospectus	Overview and with each product, substantiated with plans, contracts, orders and/or letters of intent
Addressable market, market share and industry overview	For each product – current and expected addressable markets, and current and expected market share
Business model based disclosure	Disclose whether it is subscription-based or transaction-based model and present key metrics
R&D expenditure and experience and specific risks	Disclose detailed breakdown of R&D expenditure, size, qualifications and experience of the R&D team, percentage of IPO proceeds spent on R&D, stage of R&D for each key product, and details of the issuer's R&D experience
Industry standards / competent authority requirements	Disclose industry-specific standards and definitions or classifications, details of regulatory approval and summary of material communication with competent authority, material safety data (if applicable)
Intellectual property	Disclose intellectual property rights, its details and significance, highlights risks of intellectual property infringements
Risks	Disclose specific risks, general risks and dependencies; disclose information on project risks arising from environmental, social, and health and safety issues
Warning statement on the cover of the listing document	"The issuer is a Specialist Technology Company (as defined in Chapter 18C of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited). The securities of Specialist Technology Companies carry high investment risks including risks of share price volatility and inflated valuation due to the difficulty in valuing such companies. Investors should fully understand the investment risks of a Specialist Technology Company and the risks disclosed by the issuer before making their investment decisions."
Additional disclosure for Pre-Commercial Companies	• the stage of R&D for each of its specialist technology product(s) • development details by key stages and milestones for its key specialist technology product(s) to meet the revenue requirement of a Commercial Company • all relevant risks related to commercialisation of each product • specific warning statement on the cover regarding Pre-Commercial Companies • the potential earlier expiry of the lock-up periods applicable to the relevant shareholders in the case of the removal of designation as a Pre-Commercial Company

Post-IPO Lock-up Requirements for a Specialist Technology Company

Persons (including their respective close associates)	**Lock-up Period**	
	Commercial Companies	**Pre-Commercial Companies**
Controlling shareholders	12 months (R18C.13)	24 months (R18C.13)
"Key persons" comprising: • founders (including founding members of key operating subsidiaries) • beneficiaries of weighted voting rights • executive directors and senior management • key personnel responsible for the technical operations and/or R&D	12 months (R18C.14(1))	24 months (R18C.14(1))
Pathfinder SIIs that satisfy the indicative minimum investment benchmark (above)	6 months (R18C.14(2)) (NGL para 81)	12 months (R18C.14(2)) (NGL para 81)
Cornerstone investors	generally for at least six months (HKEX-GL51-13 para 22(b))	

Additional Continuing Obligations for Pre-Commercial Companies

1 Disclosure in reports: A Pre-Commercial Company must include in its interim (half-yearly) and annual reports details of its research and development and commercialisation activities during the period under review in accordance with R18C.19.

2 Sufficient Operation: If HKEX considers that a Pre-Commercial Company fails to carry out, directly or indirectly, a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of the issuer's securities, HKEX may suspend dealings or cancel the listing of its securities. Proprietary trading and/or investment in securities by an issuer and its subsidiaries are normally excluded unless it is an investment company listed under Chapter 21 of the Listing Rules (R18C.20).

3 Material Change: Without the prior consent of HKEX, a Pre-Commercial Company must not effect any acquisition, disposal or other transaction or arrangement that would result in a fundamental change in the principal business activities as described in the listing document issued at the time of its listing application (R18C.21).

4 Removal of Designation as a Pre-Commercial Company: A Pre-Commercial Company that wishes to cease being regarded as a Pre-Commercial Company after listing must make an application to the Exchange in accordance with R18C.23 and R18C.24 (R18C.22).