

Hong Kong: Stock Exchange proposes to introduce a Specialist Technology Companies listing regime

In brief

On 19 October 2022, The Stock Exchange of Hong Kong Limited ("**Exchange**") published a [consultation paper](#) ("**Consultation Paper**") on a new listing regime for Specialist Technology Companies (as defined below). The new regime is designed to attract advanced technology companies or new economy companies besides those which operate internet businesses that have strong growth potential and are most likely to represent the industries of the future, as well as to allow such companies to have access to the public market for their continuous development and growth.

The consultation will close on 18 December 2022.

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What is a Specialist Technology Company?

A listing applicant seeking to list under the Specialist Technology regime must be a Specialist Technology Company, which is proposed to be broadly defined as a company primarily engaged (whether directly or through its subsidiaries) in the research and development (R&D), and commercialisation and/or sales of products or services ("**Specialist Technology Product(s)**"), that apply specialist technology ("**Specialist Technology**") within an acceptable sector of a Specialist Technology industry. The Exchange proposes to publish a non-exhaustive list of Specialist Technology industries ("**Specialist Technology Industries**") and acceptable sectors that may apply to list under the new regime. The Exchange considers that this approach will give them flexibility to amend the guidance as Specialist Technology Industries evolve over time.

Below is a comparison of the Specialist Technology Industries and acceptable sectors¹ under the new regime against the list of industries and sectors acceptable for listing on the Shanghai Stock Exchange Science and Technology Innovation Board (STAR Board). Please note that similar acceptable sectors, e.g., semiconductors, may fall into different industries under these regimes.

Hong Kong (Proposals)		Shanghai (STAR Board)	
Specialist Technology Industries	Acceptable Sectors	Recommended Industries	Acceptable Sectors
(a) Next-generation information technology	<ul style="list-style-type: none"> • Cloud-based services • Artificial intelligence 	(a) Next-generation information technology	<ul style="list-style-type: none"> • Semiconductors and integrated circuits • Electronic information • Next-generation information networks • Artificial intelligence • Big data • Cloud computing

¹ The Exchange's research reveals that Hong Kong still lags behind Mainland China and the United States in terms of listing of companies in these five industries.



Hong Kong (Proposals)		Shanghai (STAR Board)	
			<ul style="list-style-type: none"> • Software • Internet • Internet of things • Intelligent hardware
(b) Advanced hardware	<ul style="list-style-type: none"> • Robotics and automation • Semiconductors • Advanced communication technology • Electric and autonomous vehicles • Advanced transportation technology • Aerospace technology • Advanced manufacturing • Quantum computing • Metaverse technology 	(b) Advanced equipment	<ul style="list-style-type: none"> • Intelligent manufacturing • Aerospace • Advanced rail transit • Ocean engineering equipment
(c) Advanced materials	<ul style="list-style-type: none"> • Synthetic biological materials • Smart glass • Nanomaterials 	(c) New materials	<ul style="list-style-type: none"> • Advanced steel materials • Advanced non-ferrous metal materials • Advanced petrochemical new materials • Advanced inorganic non-metallic materials • High-performance composite materials • Cutting-edge new materials
(d) New energy and environmental protection	<ul style="list-style-type: none"> • New energy generation • New energy storage and transmission technology • New green technology 	(d)(i) New energy	<ul style="list-style-type: none"> • Advanced nuclear power • Large-scale wind power • Efficient optic-electro and optic-thermal technologies • Efficient energy storage
		(d)(ii) Energy conservation and environmental protection	<ul style="list-style-type: none"> • Efficient energy-saving products and equipment • Advanced environmental protection technical equipment • Advanced environmental protection products • Recycling of resources • Whole new-energy vehicles • Key components and parts of new-energy vehicles • Power batteries
(e) New food and agriculture technologies	<ul style="list-style-type: none"> • New food technology • New agriculture technology 	(e) Biomedicine	<ul style="list-style-type: none"> • Biological products • High-end chemical drugs • High-end medical equipment and instruments



Hong Kong (Proposals)		Shanghai (STAR Board)	
(f) N/A	N/A	(f) Negative list	<ul style="list-style-type: none"> Restricted companies: Financial technology or model innovation enterprises Prohibited companies: Real estate enterprises and enterprises mainly engaging in financial and investment businesses

The Exchange may add new industries or sectors to the list of Specialist Technology Industries and acceptable sectors after consultation with the Securities and Futures Commission (SFC) and with its approval. In this connection, the Exchange will take into account any pre-IPO enquiry from potential listing applicants from the relevant industry or sector.

Companies with a mix of traditional and Specialist Technology Industries businesses

Where a listing applicant has multiple business segments and some of which fall outside the Specialist Technology Industries, the Exchange will take into account the following when determining whether the applicant is a Specialist Technology Company:

- (a) Whether a substantial portion of the total operating expenditure of the applicant and senior management resources (including their time, number of directors and senior management personnel with relevant expertise and experience) was dedicated to the R&D of, and the commercialisation and/or sales of, the Specialist Technology Product(s) in the applicant's Specialist Technology business segment(s) for at least three financial years prior to listing.
- (b) Whether the basis for investors' valuation and the expected market capitalisation of the applicant is based primarily on the applicant's Specialist Technology business segment(s), rather than its other business segments or assets unrelated to its Specialist Technology business segment.
- (c) Whether the proposed use of proceeds for listing would primarily be applied to its Specialist Technology business segment.

Key requirements for Specialist Technology Companies

The Exchange proposes to divide Specialist Technology Companies into two categories:

- (a) **Commercial Company:** a company that has met the proposed minimum revenue threshold of HKD 250 million for the most recent audited financial year arising from the issuer's Specialist Technology business segment(s) ("**Commercialisation Revenue Threshold**").
- (b) **Pre-Commercial Company:** a company that has not yet met the Commercialisation Revenue Threshold at IPO.

The Exchange proposes more stringent listing requirements for Pre-Commercial Companies to protect retail investors.

Below is a high-level comparison of some of the main features of the specialist technology listing regimes in Shanghai and Hong Kong. The Exchange emphasises on having a high-quality regime that can better protect investors. As such, the Exchange proposes higher thresholds for listing applicants, e.g., the minimum expected market capitalisation, mandatory investment from certain investors and free float requirements, compared to those required by the STAR Board.

	Hong Kong (Proposals)		Shanghai (STAR Board)		
	Commercial Companies	Pre-Commercial Companies			
Qualifications for listing					
1. Minimum expected market capitalisation	HKD 8 billion	HKD 15 billion	Financial eligibility tests	Minimum expected market capitalisation	Minimum revenue or other requirements
2. Minimum revenue	HKD 250 million for the most recent audited financial year arising from the issuer's Specialist Technology business segment(s), i.e., the	N/A	(1) Market capitalisation/net profit test	RMB 1 billion	(a) Positive net profit for the most recent two years, and



Hong Kong (Proposals)		Shanghai (STAR Board)		
Commercial Companies	Pre-Commercial Companies			
Commercialisation Revenue Threshold				accumulated net profit not less than RMB 50 million; or (b) Positive net profit for the most recent year and operating income not less than RMB 100 million.
		(2) Market capitalisation/ income test A	RMB 1.5 billion	Operating income for the most recent year not less than RMB 200 million, with the proportion of R&D investment for the most recent three years accounting for not less than 15% of the operating income.
		(3) Market capitalisation/ income test B	RMB 2 billion	At least RMB 300 million operating income for the most recent year, and at least RMB 100 million net cash flow generated from operating activities in each of the three most recent years.
		(4) Market capitalisation/ income test C	RMB 3 billion	Operating income for the most recent year not less than RMB 300 million.
		(5) Market capitalisation/ business test	RMB 4 billion	Major businesses or products should have received approvals from relevant national authorities, possess large market potential and have achieved phased results. Pharmaceutical companies must have at least one core product that has been approved to commence Phase 2 clinical trials. Other eligible



	Hong Kong (Proposals)		Shanghai (STAR Board)	
	Commercial Companies	Pre-Commercial Companies		
				companies must possess substantial technological advantages and satisfy the relevant conditions of the STAR Board.
3. Revenue growth	Year-on-year growth of revenue arising from the Specialist Technology business segment throughout the track record period, with allowance for temporary declines in revenue due to economic, market or industry-wide conditions	N/A	<p>The compound growth rate of operating income should reach 20% in the most recent three years, unless the operating income reaches RMB 300 million in the most recent year.</p> <p>However, applicants seeking a listing on STAR Board under the financial eligibility test set out in item (5) above (i.e., market capitalisation/ business test) are excluded.</p>	
4. Minimum period of engagement in R&D of its Specialist Technology Product(s)	Three financial years prior to listing		N/A	
5. Total R&D investment (as a percentage of total operating expenditure) for each of the three financial years prior to listing	15%	50%	<p>An applicant must have:</p> <ul style="list-style-type: none"> the R&D investment accounts for over 5% of operating income in the most recent three years, or the R&D investment exceeds RMB 60 million cumulatively for the most recent three years; in particular, the R&D investment of software companies shall account for over 10% of the operating income cumulatively for the most recent three years; and the proportion of R&D personnel to the total number of employees in the current year shall not be lower than 10%; and more than five patents for an invention generating major operating income. 	
6. Minimum operational track record period and management continuity	Three financial years prior to listing. A shorter trading record of at least two financial years may be accepted in exceptional circumstances pursuant to Main Board Listing Rule 8.05B(3).		<p>Three years prior to listing.</p> <p>No major adverse changes to the main business and directors, senior managers and core technical personnel in the most recent two years.</p>	
7. Ownership continuity	12 months prior to the date of the listing application		No change to the actual controller in the most recent two years, and no major ownership dispute that may cause any change to the right of control.	
8. Mandatory investment from sophisticated independent investors	<ul style="list-style-type: none"> An applicant must have received meaningful investment from sophisticated independent investors (see further details below). As an indicative benchmark, an applicant meeting the following requirements will generally be considered as having received 'meaningful investment': <ul style="list-style-type: none"> Investment from at least two sophisticated independent investors at least 12 months prior to the date of the listing application, each holding such amount of shares or securities convertible into shares equivalent to 5% or more of the issued share capital of the listing applicant as at the date of listing application and throughout the pre-application 12-month period. At least the following aggregate investment from all sophisticated independent investors as at the time of listing. 		N/A	



	Hong Kong (Proposals)			Shanghai (STAR Board)
	Commercial Companies	Pre-Commercial Companies		
	Expected market capitalisation at the time of listing	Minimum aggregate investment from all sophisticated independent investors as a percentage of the issued share capital of the issuer at IPO		
		Commercial Companies	Pre-Commercial Companies	
	HKD 8 billion or more but less than HKD 20 billion	20%	25%	
	HKD 20 billion or more but less than HKD 40 billion	15%	20%	
	HKD 40 billion or more	10%	15%	
	<p>A sophisticated independent investor must not be a core connected person of the listing applicant (excluding a person being connected only by virtue of being a substantial shareholder).</p> <p>The Exchange will assess whether an investor is a sophisticated investor on a case-by-case basis by reference to its relevant investment experience, knowledge and expertise in the relevant field which could be demonstrated by its net assets, assets under management (AUM), size of its investment portfolio or track record of investments, where applicable.²</p>			
9. Additional qualification requirements for Pre-Commercial Companies	N/A	<p>An applicant must:</p> <ul style="list-style-type: none"> demonstrate, and disclose in its prospectus a credible path to achieving the Commercialisation Revenue Threshold; and have available working capital (including the expected IPO proceeds) to cover at least 125% of its group's costs (which must substantially consist of general, administrative and operating costs and R&D costs) for at least the next 12 months. 		N/A
10. Sponsor's due diligence	<ul style="list-style-type: none"> Same as those required under Practice Note 21 of the Main Board Listing Rules and paragraph 17 of the Code of Conduct for Persons Licensed by or Registered with the SFC. 			No specific requirement
IPO requirements				

² For illustrative purpose only, the Exchange would generally consider the following as examples of the types of "sophisticated investors": (a) an asset management firm with AUM of, or a fund with a fund size of, at least HKD 15 billion; (b) a company having a diverse investment portfolio size of at least HKD 15 billion; (c) an investor of any of the types above with an AUM, fund size or investment portfolio size (as applicable) of at least HKD 5 billion where that value is derived primarily from Specialist Technology investments; and (d) 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.



	Hong Kong (Proposals)		Shanghai (STAR Board)														
	Commercial Companies	Pre-Commercial Companies															
11. Initial allocation and clawback mechanism	<ul style="list-style-type: none"> At least 50% of the total number of shares offered in IPO to independent Institutional Professional Investors (as defined in the Securities and Futures Ordinance, Cap. 571) in the placing tranche (whether as cornerstone investor or otherwise). An independent Institutional Professional Investor must not be (a) an existing shareholder of the applicant, (b) a close associate of an existing shareholder; or (c) a core connected person of the applicant. Initial allocation and clawback mechanism as follows: <table border="1"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Initial allocation</th> <th colspan="2">No. of times (x) of over-subscription in the public subscription tranche</th> </tr> <tr> <th>≥ 10x to < 50x</th> <th>≥ 50x</th> </tr> </thead> <tbody> <tr> <td>Minimum allocation to retail investors as % of all the shares offered in IPO</td> <td>5%</td> <td>10%</td> <td>20%</td> </tr> </tbody> </table>			Initial allocation	No. of times (x) of over-subscription in the public subscription tranche		≥ 10x to < 50x	≥ 50x	Minimum allocation to retail investors as % of all the shares offered in IPO	5%	10%	20%	N/A				
	Initial allocation	No. of times (x) of over-subscription in the public subscription tranche															
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Minimum allocation to retail investors as % of all the shares offered in IPO	5%	10%	20%														
12. Minimum free float and offer size	<ul style="list-style-type: none"> Free float: In addition to the existing minimum public float requirements under Main Board Listing Rule 8.08(1), the applicant must ensure a portion of its issued shares with at least HKD 600 million market capitalisation are free from any disposal restrictions (whether under contract, the Main Board Listing Rules, applicable laws or otherwise) upon listing. In other words, the shares subject to lock-up, e.g., those owned by controlling shareholders or cornerstone investors, will not be counted. Offer size: The Exchange would expect an offer (including both the placing tranche and the public subscription tranche) of a meaningful size and reserves the right not to approve the listing if the offer size is not significant enough to facilitate post-listing liquidity, or otherwise gives rise to orderly market concerns. 		<ul style="list-style-type: none"> Free float: N/A Offer size: <ul style="list-style-type: none"> The total share capital of a listed issuer at the listing shall not be less than RMB 30 million. The number of IPO shares shall account for at least 25% of the total number of shares after the listing. However, if the total share capital is more than RMB 400 million, the number of IPO shares shall only account for at least 10% of the total number of shares after the listing. 														
Post-IPO requirements																	
13. Lock-up	<p>The following persons will be subject to post-IPO lock-up:</p> <ul style="list-style-type: none"> (a) Controlling shareholders of the listing applicant; (b) Key persons, including founders, any weighted voting rights (WVR) beneficiaries, executive directors and senior management, and key personnel responsible for the technical operations and/or R&D of the Specialist Technology Products ("Key Persons"); and (c) Sophisticated Independent Investors who have invested at least 12 months before the date of the listing application, each holding such amount of shares or securities convertible into shares equivalent to 5% or more of the issued share capital of the applicant as at the date of the listing application and throughout the pre-application 12-month period ("Pathfinder SIIs"). <table border="1"> <thead> <tr> <th rowspan="2">Persons</th> <th rowspan="2">Securities subject to disposal restriction</th> <th colspan="2">Post-IPO lock-up period</th> </tr> <tr> <th>Commercial Companies</th> <th>Pre-Commercial Companies</th> </tr> </thead> <tbody> <tr> <td>(a) Controlling shareholders</td> <td rowspan="2">Securities beneficially owned as disclosed in the</td> <td>12 months from the listing date</td> <td>24 months from the listing date</td> </tr> <tr> <td>(b) Key Persons</td> <td></td> <td></td> </tr> </tbody> </table>		Persons	Securities subject to disposal restriction	Post-IPO lock-up period		Commercial Companies	Pre-Commercial Companies	(a) Controlling shareholders	Securities beneficially owned as disclosed in the	12 months from the listing date	24 months from the listing date	(b) Key Persons			<p>The following persons will be subject to post-IPO lock-up:</p> <ul style="list-style-type: none"> (a) Any controlling shareholder(s) and actual controllers: must not in any way (i) transfer or authorise others to manage their directly owned or indirectly owned pre-IPO shares, nor (ii) request the issuer to repurchase those pre-IPO shares until 36 months after the date of listing. Meanwhile, if the company has not made a profit upon listing, the controlling shareholder(s) and actual controllers shall only reduce their pre-IPO stocks not more than 2% of the company's total stocks each year within the fourth financial year and the fifth financial year from the date of the listing of the company's stocks, and shall comply with the relevant provisions of the Shanghai Stock Exchange Implementing Rules for the Reduction of Shares by Shareholders, Directors, Supervisors and Senior Executives of Listed Companies. (b) Other shareholders: must not in any way dispose of any of their pre-IPO interests in the issuer until 12 months after the date of listing. (c) Newly increased shareholders acquiring shares within 12 months of the submission date: must 	
Persons	Securities subject to disposal restriction	Post-IPO lock-up period															
		Commercial Companies	Pre-Commercial Companies														
(a) Controlling shareholders	Securities beneficially owned as disclosed in the	12 months from the listing date	24 months from the listing date														
(b) Key Persons																	



		Hong Kong (Proposals)			Shanghai (STAR Board)
		Commercial Companies	Pre-Commercial Companies		
		prospectus (excluding those sold under any offer for sale as disclosed in the prospectus)			hold such shares for a minimum of 36 months from the date of acquisition. (d) Directors, supervisors, senior managers and core technicians: (i) If the company has made a profit upon listing: <ul style="list-style-type: none"> During the 12 months following the listing date, core technicians must not in any way dispose of any of their pre-IPO interests in the issuer for six months after the date they leave the company. Additionally, within fourth year above the above selling restriction, the total number of pre-IPO shares transferred each year must not exceed 25% of the pre-IPO shares held at the time of listing. The reduction ratio can be used on a cumulative basis. The directors, supervisors and senior managers must not in any way dispose of any of their shares in the issuer for six months after the date they leave the company. Additionally, during their term of office (even if they resign in advance), they must not transfer more than 25% of the total shares they held. (ii) If the company has not made a profit upon listing: <ul style="list-style-type: none"> Directors, supervisors, senior managers and core technicians shall not dispose of any of their pre-IPO interests within three complete financial years from the date of listing of the company's shares. Even if they resign within such a lock-in period, the shares they held shall not be reduced within three complete financial years. However, where the listed company achieves profit within three full financial years from the listing date, its directors, supervisors, senior managers and core technicians may reduce the shares they held prior to the initial public offering from the next day after the annual report is disclosed.
		Securities subscribed for in the IPO	If the shareholder subscribes as a cornerstone investor, the applicable lock-up period for the cornerstone investment would apply (including an existing shareholder holding 10% or more of shares in the company before the IPO and who subscribes for shares in the IPO, in which case the shareholder is required to subscribe as a cornerstone investor).		
(c) Pathfinder SIs		Securities beneficially owned as disclosed in the prospectus (excluding those sold under any offer for sale as disclosed in the prospectus)	Six months from the listing date	12 months from the listing date	
		Securities subscribed for in the IPO	Same as (a) controlling shareholders and (b) Key Persons		

Specialist Technology Companies with a WVR structure

A Specialist Technology Company applicant must meet a minimum market capitalisation threshold of either HKD 40 billion or HKD 10 billion (if it has at least HKD 1 billion revenue in its last audited financial year) to list with a WVR structure pursuant to the existing requirement under Main Board Listing Rule 8A.06. Given applicants will be either Pre-Commercial Companies with less than HKD 250 million in annual revenue or Commercial Companies that cannot meet the HKD 500 million annual revenue requirement under Main Board Listing Rule 8.05(2) or Rule 8.05(3), it is likely that they will need to meet the HKD 40 billion market capitalisation threshold to list with WVR.

Similarly, where a company seeking a listing on STAR Board has differential voting rights arrangements in place, its market capitalisation and financial indicators are required to meet at least one of the following criteria: (a) the estimated market capitalisation shall not be less than RMB 10 billion; or (b) the estimated market capitalisation shall not be less than RMB 5 billion, and the operating income in the latest year shall not be less than RMB 500 million.



The Exchange's guidance on the suitability for applicants to list with a WVR structure also requires, among others, that each WVR beneficiary must have been materially responsible for the growth of the business of a company applying to list with a WVR structure, and the applicant must demonstrate a track record of high business growth and that its high growth trajectory is expected to continue. These current requirements will also apply to Specialist Technology Companies listing with a WVR structure.

The Exchange proposes to introduce the new Chapter 18C to regulate Specialist Technology Companies. For further information and to discuss what this development might mean for you, please get in touch with our lawyers set out under 'Contact Information' or your usual Baker McKenzie contact.



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