



CWK GLOBAL SNAPSHOT

NEW LISTING CHANNELS
FOR SPECIALIST
TECHNOLOGY COMPANIES
IN HKEX CHAPTER 18C OF
THE MAIN BOARD



BACKGROUND

On 24 March 2023 The Stock Exchange of Hong Kong Limited (“Exchange”) has issued consultation conclusions on the New Specialist Technology Company Listing Rules to take effect on 31 March 2023.

A new Chapter 18C (Specialist Technology Companies) has been added into the Main Board Listing Rules. This is the expansion of Hong Kong’s listing framework for Specialist Technology Companies seeking a listing on the Exchange pursuant to Chapter 18C of the Main Board Listing Rules.

This new route will support some of the most innovative and progressive companies of the future (最具創新性和未來進步的企業).

The Exchange welcomes applications from issuers operating in five frontier Industries (尖端行業) as they access capital to fund innovative ideas and growth.

DEVELOPMENT DIRECTION OF SPECIALIZED TECHNOLOGY

In August 2019, the Ministry of Science and Technology issued the "Several Policy Measures to Accelerate the Innovative Development of Science and Technology Small and Medium-sized Enterprises in the New Era." The policy measures include the following:

- Accelerate the promotion of private enterprises, especially various types of small and medium-sized enterprises, towards innovation-driven development.
- Strengthen policy guidance and precise support for science and technology small and medium-sized enterprises.
- Increase fiscal support for research and development activities of science and technology small and medium-sized enterprises.
- Expand the supply of innovative services for science and technology small and medium-sized enterprises.
- Strengthen the support of the financial capital market for science and technology small and medium-sized enterprises.

DEVELOPMENT DIRECTION OF SPECIALIZED TECHNOLOGY (CONT'D)

Additionally, in a meeting held by the Political Bureau of the Communist Party of China on July 30, 2021, the following requirements were highlighted:

- Tap into the domestic market potential and support the accelerated development of new energy vehicles.
- Speed up the integration of county-level e-commerce systems and express logistics distribution systems, advance the construction of major projects under the "14th Five-Year Plan," and encourage companies to increase investment in technological transformation.
- Strengthen scientific and technological innovation and the resilience of industrial and supply chains, enhance basic research, promote applied research, carry out special actions to address gaps and strengthen weak links, and accelerate the development of specialized, refined, distinctive, and innovative small and medium-sized enterprises.
- Intensify efforts in reform and overcome challenges, further stimulate the vitality of market entities.

CONSIDERATIONS FOR A TECHNOLOGY COMPANY'S IPO

Variable Interest Entity (VIE) Structure

- This structure enables Chinese companies in industries with restrictions on foreign investment to achieve overseas listings.
- VIE structure can only be used in industries where foreign investment is prohibited or restricted.
- The Stock Exchange of Hong Kong (“HKEX”) has specific requirements for the use of VIE structures, allowing only restricted businesses to be placed within VIE entities (narrowly tailored). Therefore, business restructuring may be required during the listing process in Hong Kong.

Compliance Requirements for Licensing, Business Operations Data, and Content Regulation

- Licensing: Applicants need to determine if their business requires specific licenses and engage with relevant regulatory authorities.
- Business operations data: HKEX focuses on the authenticity of business data operations, requiring rigorous verification procedures for disclosed information.
- Content regulation: HKEX requires applicants to distribute legally compliant content and assesses whether the company has any past non-compliance issues

CONSIDERATIONS FOR A TECHNOLOGY COMPANY'S IPO (CONT'D)

Pre-IPO Fund-raising

- The final round of pre-IPO fundraising must be completed at least 28 days before submitting the Form A1 listing application or at least 120 days before the first day of share trading.
- HKEX does not have a rigid requirement for the valuation relationship between pre-IPO and IPO, but investors often consider the valuation of the final round of pre-IPO as a reference for IPO valuation.

From Loss to Profitability

- HKEX allows companies without profitability to list based on market capitalization/revenue/cash flow tests or market capitalization/revenue tests.
- HKEX places significant emphasis on the sustainability and profitability of currently loss-making companies, requiring demonstration of the ability to achieve profitability within the next 18-24 months.

CONSIDERATIONS FOR A TECHNOLOGY COMPANY'S IPO (CONT'D)

Dual-class Structure

- The issuer must be a high-growth innovative industry company and demonstrate the application of new technologies, innovative concepts, and new business models in its core operations.
- The expected market capitalization of the issuer at the time of listing should be no less than HKD 10 billion (approximately USD 1.3 billion).
- The voting power attached to different classes of shares should not exceed ten times the voting power of ordinary shares.

Favourable Measures for Listing of Specialized Technology Companies

- No profit requirement: Allows technology companies without earnings or profit records to apply for listing.
- Coverage of next-generation information technology, advanced hardware and software, advanced materials, new energy and energy conservation, and new food and agricultural technology.

DEFINITION OF SPECIALIZED TECHNOLOGY

It refers to key core technologies that play a significant role in economic and social development. Currently, it is primarily manifested in five areas: next-generation information technology, advanced hardware and software, advanced materials, new energy and energy conservation, and new food and agricultural technology.

R&D CAPITAL REQUIREMENTS

Specialized technology fields have characteristics of high investment, long cycles, and high risks. During the early development stages of technology companies, there is a lack of long-term and effective financial support. Limited levels of capital investment become one of the key factors restricting the speed and quality of development for specialized technology companies.

INVESTMENT AREAS IN SPECIALIZED TECHNOLOGY

Capital is shifting towards specialized technology as a major investment direction. The semiconductor and new energy are the main investment segments. The concept of "carbon neutrality" is also driving investment projects in the energy storage field.

CONSIDERATIONS FOR A TECHNOLOGY COMPANY'S IPO (CONT'D)

Arrangements for Share Option Plans After Listing

- Share options granted before listing remain valid after listing, but the company cannot grant new share options under existing plans after listing.
- Applicants may consider granting restricted share units and share options before listing, and continuing existing share incentive plans.

Related Party Transactions and Dependence on Customers

- The HKEX generally considers related party transactions and dependence as disclosure requirements. Applicants must disclose the company's dependence on major shareholders, related parties, major suppliers, and customers.
- The HKEX's rigid requirements for technology companies regarding related party transactions and dependence take into account additional factors, such as the market environment in which the issuer operates.

COVERAGE OF SPECIALIZED TECHNOLOGY

New Food and Agricultural Technology

Food and agricultural technologies applied to agricultural activities, cultivation, and food processing (new food technologies / new agricultural technologies).

Next-Generation Information Technology

Hardware, platforms, and infrastructure solutions supported by cloud computing and big data analytics (cloud services / artificial intelligence).

Advanced Materials

Production or integration of new materials or significantly improved materials to enhance the performance of traditional materials (synthetic biomaterials / advanced inorganic materials / advanced composite materials / nanomaterials).

New Energy and Energy Conservation

Production of energy using natural resources, development of networks and infrastructure to support related production, and processes that enhance environmental sustainability and resource utilization and/or energy efficiency (new energy production / new energy storage and transmission technologies / new green technologies).

COVERAGE OF SPECIALIZED TECHNOLOGY (CONT'D)

Advanced Hardware and Software

Development of advanced hardware and software using advanced technologies (robotic automation / semiconductors / advanced communication technologies / electric and autonomous vehicles / advanced transportation technologies / aerospace technology / advanced manufacturing / quantum information technology and computing / metaverse technology).

NEW FRAMEWORK FOR THE HONG KONG LISTING OF SPECIALIZED TECHNOLOGY COMPANIES

	Commercialized Enterprises	Non-commercialized Enterprises
Revenue	Specialized technology business revenue of at least HKD 250 million in the most recent fiscal year	No requirement
Expected Market Capitalization	At least HKD 6 billion	At least HKD 10 billion
Operating Track Record	Operate existing business under substantially the same management conditions for at least three accounting years (special circumstances may allow for two accounting years)	
Research and Development (R&D) Expenditure	<ul style="list-style-type: none"> • Cost of personnel engaged in R&D activities. • Cost of R&D activities conducted by third parties on behalf of the company. • Depreciation, service fees, or other directly related costs of equipment, facilities, or services used in R&D activities. • Amortization of intangible assets used in R&D activities. • Cost of materials consumed in R&D activities 	
R&D Expenditure Ratio (as a percentage of total operating expenditure)	<ul style="list-style-type: none"> • At least two out of the three fiscal years before listing should meet the relevant percentage, and • The three years before listing, when combined, should meet the relevant percentage. 	
	15%	<ul style="list-style-type: none"> • Annual revenue of HKD 150 million or less: 50% • Annual revenue between HKD 150 million and HKD 250 million: 30%
Working Capital Requirement	As per general requirements	At least 125% of the expenses projected to be incurred for a minimum of 12 months from the date of publication of the listing document.

NEW FRAMEWORK FOR THE HONG KONG LISTING OF SPECIALIZED TECHNOLOGY COMPANIES (CONT'D)

	Commercialized Enterprises	Non-commercialized Enterprises
Senior Investors	<ul style="list-style-type: none"> Asset management companies with total assets under management of at least HKD 15 billion or funds with a size of at least HKD 15 billion. Diversified investment companies with a size of at least HKD 15 billion. Investors of the above types managing assets, funds, or investment portfolios in the specialized technology field with a total value of at least HKD 5 billion. Key participants in upstream or downstream industries with significant market share and scale (supported by independent market or operational data). 	
2-5 Lead Senior Independent Investors	<ul style="list-style-type: none"> On the date of the IPO application and during the 12-month period prior to the IPO application, collectively hold at least 10% of the issued share capital; or Have invested a total amount of at least HKD 1.5 billion in the applicant at least 12 months before the IPO application date (excluding any subsequent divestments made on or before the IPO application date) 	
2 Lead Senior Independent Investors	<ul style="list-style-type: none"> On the date of the IPO application and during the 12-month period prior to the IPO application, individually hold at least 3% of the issued share capital; or Have individually invested an amount of at least HKD 450 million in the applicant at least 12 months before the IPO application date (excluding any subsequent divestments made on or before the IPO application date). 	
Senior Independent Investors Minimum Shareholding after Listing	<ul style="list-style-type: none"> HKD 6 billion to HKD 15 billion: 20% HKD 15 billion to HKD 30 billion: 15% Above HKD 30 billion: 10% 	<ul style="list-style-type: none"> HKD 10 billion to HKD 15 billion: 25% HKD 15 billion to HKD 30 billion: 20% HKD 30 billion and above: 15%
Independent Price Sensitive Investors	<p>Institutional professional investors who meet the independence requirements, and other types of investors with a total asset management, fund, or investment portfolio size of at least HKD 1 billion</p>	
Placement Requirements	<p>At least 50% of the total number of shares offered in the IPO (excluding the exercise of any over-allotment option) must be subscribed by participating independent price sensitive investors (whether cornerstone investors or not).</p>	

INEW FRAMEWORK FOR THE HONG KONG LISTING OF SPECIALIZED TECHNOLOGY COMPANIES (CONT'D)

	Commercialized Enterprises	Non-commercialized Enterprises
Clawback Mechanism	The initial allocation to retail investors is 5% of the total shares offered. If there is oversubscription in the public offering by 10-50 times, the allocation to retail investors is adjusted to 10%. If the oversubscription exceeds 50 times, the allocation to retail investors is 20%.	
Free Float	The post-listing free float must be at least HKD 600 million. (Free float refers to the shares listed on the Hong Kong Stock Exchange with market value and no sales restrictions, regardless of any limitations imposed by contracts, listing rules, applicable laws, or other regulations.)	
Additional Disclosures	<p>The prospectus must include additional disclosures on</p> <ul style="list-style-type: none"> • pre-IPO investments and cash flows, • product status and commercialization prospects, • R&D expenditure, industry information, and • detailed disclosure of intellectual property. <p>Additionally, the listing documents must include a risk warning statement indicating that the applicant is a specialized technology company, and investing in its securities carries additional risks.</p>	
	-	<ul style="list-style-type: none"> • Key stages and milestones of specialized technology products to meet the commercialization revenue threshold. • Sufficient risk warnings and disclosures that indicate that the company may not generate sufficient revenue to sustain its operations after listing. • If the commercialization company requirements are met, there is a possibility of early termination of the lock-up period for relevant shareholders.

NEW FRAMEWORK FOR THE HONG KONG LISTING OF SPECIALIZED TECHNOLOGY COMPANIES(CONT'D)

	Commercialized Enterprises	Non-commercialized Enterprises
Key Persons	<ul style="list-style-type: none"> • Founders • Different classes of voting rights beneficiaries • Executive directors and senior management • Key individuals responsible for technical operations and/or product development 	
Lock-up Period	<ul style="list-style-type: none"> • The lock-up applies to securities beneficially owned by disclosed controlling shareholders, key persons, and cornerstone investors as stated in the listing documents (pre-listing or on-listing share sales are not restricted). • Additional securities subscribed at the time of the IPO can be sold during the lock-up period (subject to compliance with the requirements to maintain an orderly market and sufficient public float). 	
Controlling Shareholders and Key Persons	12 months from the listing date	24 months from the listing date
Senior Independent Investors	6 months from the listing date	12 months from the listing date
Existing Shareholders' Subscription	Existing shareholders holding less than 10% of the specialized technology company's shares can participate in the subscription as cornerstone investors or places. Existing shareholders holding 10% or more of the specialized technology company's shares can participate in the subscription as cornerstone investors.	
Second/Dual Listing	The Hong Kong Stock Exchange will consider the shareholding of the applicant's senior independent investors before and at the time of overseas listing and when submitting the listing application under Chapter 18C.	

NEW FRAMEWORK FOR THE HONG KONG LISTING OF SPECIALIZED TECHNOLOGY COMPANIES (CONT'D)

	Commercialized Enterprises	Non-commercialized Enterprises
Additional Ongoing Disclosure Requirements after Listing	-	<p>Additional ongoing disclosure requirements in the interim report and annual report:</p> <ul style="list-style-type: none"> • Expected timeline and progress for reaching commercialization threshold. • Development progress of specialized technology products. • Summary of R&D activities and expenditure. • Updates on any revenue, profit, and other business and financial estimates provided in the listing documents. • Prominent warning statement declaring that the applicant may not necessarily meet the commercialization threshold. <p>The grace period to meet the requirements for sufficient business operations, before delisting, is reduced from 18 months to 12 months, as applicable to general companies.</p> <p>The stock code is appended with "P" as a designation.</p> <p>The additional ongoing disclosure requirements continue to apply until the commercialization company requirements are met or other Main Board eligibility tests are satisfied.</p>

REGULATORY FOCUS AREAS FOR SPECIALIZED TECHNOLOGY COMPANIES

Nature of the Company

The company must align with the specialized technology category, relying on core patented specialized technology, and be in the early stages of business development

Lack of Regulatory Oversight

Products or services of specialized technology companies usually do not require evaluation or approval from regulatory authorities. The Stock Exchange has no means to verify or assess the authenticity and accuracy of specialized technology products or services

Difficulty in Consensus Valuation

Specialized technology companies often lack revenue, making it challenging for investors to reach a consensus on valuation compared to companies in traditional industries.

Feasibility of Product-based Services

Some specialized technology companies employ innovative technologies that may require expert assessment. This introduces the risk of companies intentionally exaggerating the capabilities of their products and/or services.

REGULATORY FOCUS AREAS FOR SPECIALIZED TECHNOLOGY COMPANIES (CONT'D)

Failure to Achieve Successful Commercialization

There is a risk of companies not being able to commercialize their products or facing the ultimate failure of commercialization.

Dependence on External Funding for Sustenance

Many early-stage specialized technology companies rely on equity securities or debt financing for working capital, which increases the risk of business failure.

OVERVIEW OF HONG KONG LISTING PATHS FOR TECHNOLOGY COMPANIES

	Traditional Path – Listing Rules of the Stock Exchange	New Path – Chapter 18C
Financial Requirements	<p>Profit Test:</p> <ul style="list-style-type: none"> • Cumulative profit of HK\$50 million or more over the past three years. • Profit of HK\$20 million or more in the most recent year before listing. • Market capitalization of HK\$500 million or more. <p>Market Capitalization/Revenue Test:</p> <ul style="list-style-type: none"> • Revenue of HK\$500 million or more in the most recent year. • Market capitalization of HK\$4 billion or more. <p>Market Capitalization/Revenue/Cash Flow Test:</p> <ul style="list-style-type: none"> • Revenue of HK\$500 million or more in the most recent year. • Market capitalization of HK\$2 billion or more. • Positive operating cash flow in the preceding three financial years, with a total of HK\$100 million or more. 	<p>Commercialized Enterprises:</p> <ul style="list-style-type: none"> • Minimum annual revenue of HK\$250 million. • Market capitalization not less than HK\$6 billion. <p>Non-commercialized Enterprises:</p> <ul style="list-style-type: none"> • Market capitalization not less than HK\$10 billion. • Research and development (R&D) expenditure accounts for at least 15% of revenue.
Other Requirements	<ul style="list-style-type: none"> • Minimum public float generally set at 25% (can be reduced to 15% if market capitalization is over HK\$10 billion at the time of listing). • At least 300 shareholders. • Management continuity in the past three years. • Ownership and control continuity in the past year. • At least three independent directors, accounting for at least one-third of the board members. • Submission of semi-annual financial reports. 	-

OVERVIEW OF HONG KONG LISTING PATHS FOR TECHNOLOGY COMPANIES (CONT'D)

	Traditional Path – Listing Rules of the Stock Exchange	New Path – Chapter 18C
Advantages	<ul style="list-style-type: none"> The controllability of the listing timeframe is higher, with clear and standardized procedures. Professional institutions have ample experience in handling regulations under the traditional path. Compared to the mainland and US markets, the IPO threshold is lower, allowing for more flexibility. 	<ul style="list-style-type: none"> Allowing technology companies that have not yet generated profits to apply for listing based on an alternative financial standard. Evaluating financials and future prospects from a non-traditional IPO perspective.
Disadvantages	<ul style="list-style-type: none"> Compared to Special Purpose Acquisition Company (“SPAC”), the procedures are more complex. 	<ul style="list-style-type: none"> Higher market capitalization requirement compared to the traditional path.

ADVANTAGES OF LISTING A SPECIALIZED TECHNOLOGY COMPANY IN HONG KONG

Flexibility in Fundraising

By choosing to list on the Hong Kong Stock Exchange, specialized technology companies can raise funds that are specifically focused on technology-related industry sectors. They also have greater flexibility in investment projects, foreign exchange management, and disclosure of fund usage information.

Favorable to Institutional Investors

The Hong Kong capital market attracts investors with different risk appetites, primarily institutional investors who generally have higher investment experience and risk tolerance compared to retail investors. From this perspective, compared to domestic capital markets where retail investors dominate, pre-commercialized specialized technology companies find it easier to meet their financing needs by choosing the Hong Kong capital market.

Precise Positioning

Chapter 18C targets pre-commercialized unicorn companies with high valuations. These companies are often excluded from major exchanges, including the Shanghai Stock Exchange, due to their lack of profitability/revenue. Compared to the Science and Technology Innovation Board (STAR Market), the Chapter 18C regime has a broader industry scope, making it a potential preferred option for pre-commercialized unicorns to pursue listing in the short term.

ADVANTAGES OF LISTING A SPECIALIZED TECHNOLOGY COMPANY IN HONG KONG (CONT'D)

International Development

The Chapter 18C regime serves as a bridge for high-quality specialized technology companies to access international capital. The Hong Kong market attracts a significant number of international investors, which is more conducive to enhancing international visibility and expanding international business compared to listing in the A-share market.

Alignment with China Government Policies

The Chapter 18C regime will play an important role in the overall development of the specialized technology industry in China, especially under the backdrop of geopolitical dynamics. The Chinese government is strongly promoting the development of "hard-tech" industries. It can be foreseen that China will vigorously support the development of the specialized technology industry, and specialized technology companies listing in Hong Kong will benefit from the supportive policies of the Chinese government, presenting unprecedented opportunities.

IMPORTANT

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

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Our core services include Initial Public Offerings (IPO) consultancy, corporate finance consultancy, trust and fund consultancy, global tax planning, internal control review, listed corporates "Environmental, Social and Governance" (ESG) analysis and reporting, accounting, auditing, and company secretarial services.

CWK CPA is one of the registered Public Interest Entities (PIE) Auditors in Hong Kong, which provides auditing services for listed groups and multinational conglomerate companies.

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