



HKEX and SFC Announce Temporary Modifications to Requirements for Specialist Technology Companies and De-SPAC Transactions

On 23 August 2024, the Stock Exchange of Hong Kong Limited (**HKEX**) and the Securities and Futures Commission (**SFC**) **announced** temporary modifications to the requirements for Specialist Technology Companies and Hong Kong De-SPAC Transactions.

In summary, the modifications include reduced initial market capitalisation thresholds for listing, independence requirements for third-party investors in De-SPAC Transactions, temporary modifications to certain listing requirements, and clarification of the definition of a “sophisticated investor.” These changes aim to reinforce Hong Kong’s position as a leading listing venue for tech firms, and maintain high regulatory standards. The updates also align third-party investment requirements for De-SPAC Transactions with the Chapter 18C Independence Test. The SFC has officially approved these modifications in accordance with Main Board Listing Rule 2.04.

Reduction in initial market capitalisation thresholds for Specialist Technology Companies listing in Hong Kong

The minimum initial market capitalisation requirements for Specialist Technology Companies to list on the Main Board have been lowered. For Commercial Companies, the requirement has decreased from HK\$6 billion to HK\$4 billion, and for Pre-Commercial Companies, it has been reduced from HK\$10 billion to HK\$8 billion. This change relates to the requirements in Main Board Listing Rule 18C.03(3).

Reduction in minimum independent third party investment for a Hong Kong De-SPAC Transaction

The minimum independent third party investment required for a Hong Kong De-SPAC Transaction will now be set at the lower of either: (i) the amount calculated based on specified percentages in the table set out in the Main Board Listing Rules 18B.41; or (ii) HK\$500 million in value.

Independence requirements for third party investors in Hong Kong De-SPAC Transactions

The criteria for determining the independence of third-party investors in a Hong Kong De-SPAC Transaction as per the Main Board Listing Rule 18B.40, will be aligned with the independence test for sophisticated independent investors in Specialist Technology Companies.

Key points include:

1. An investor's independence is assessed at the time of signing the definitive agreement for the investment and continues up to the listing of the Successor Company, the listed issuer resulting from the completion of the Hong Kong De-SPAC Transaction.
2. Certain individuals or entities are excluded from being considered independent third-party investors: (i) Core connected persons of the SPAC or the De-SPAC Target, except for substantial shareholders who are only considered connected due to their shareholding size; (ii) Controlling shareholders of the SPAC or the De-SPAC Target; or (iii) Founders of the De-SPAC Target and their close associates.
3. The HKEX retains the discretion to determine independence based on specific case facts and circumstances. For instance, individuals or entities with acting-in-concert agreements with SPAC Promoters, controlling shareholders, or founders of the De-SPAC Target are generally not viewed as independent.

Time limit for the Modifications

These temporary modifications to certain listing requirements will be effective for a three-year period from 1 September 2024, to 31 August 2027, known as the Implementation Period. The HKEX may reassess these requirements before 31 August 2027, potentially involving public consultation. For Specialist Technology Companies aiming to list under Hong Kong Main Board Chapter 18C, the modified initial market capitalisation thresholds will only apply if their expected listing date is within the Implementation Period and their listing applications are submitted by the end of this period. In the case of Hong Kong De-SPAC Transactions, altered investment threshold and independence criteria for third-party investors will be in effect for transactions announced during the Implementation Period.

Clarification of the Hong Kong definition of a "sophisticated investor" for independent third party investment

The HKEX has updated its guidance materials to refine the definition of a "sophisticated investor" to match more closely with the criteria used for identifying qualified Strategic Investors in Specialist Technology Companies. These updates will be reflected in the revised [Guide for New Listing Applicants](#), guidance letter [HKEX-GL113-22](#), and the [updated FAQ on SPACs](#), which will take effect from 1 September 2024.

Hong Kong De-SPAC Transactions

The rationale behind introducing mandatory independent third-party investment for De-SPAC Transactions is to reduce the risk of inflated valuations. The new investment requirements are meant to ensure a substantial amount of "capital at risk," supporting the legitimacy of the valuation of the target company in a Hong Kong De-SPAC Transaction. Additionally, the section draws parallels between these investment requirements and the Chapter 18C Independence Test, which was established to address valuation challenges specifically for Specialist Technology Companies. The alignment of third-party investment requirements with the Chapter 18C Independence Test aims in part to solve problems SPACs apparently faced when applying the independent financial adviser test, which was not originally designed for Hong Kong De-SPAC Transactions.

HKEX definition of Specialist Technology Companies

A Specialist Technology Company under the HKEX Listing Rules is a company which focuses on R&D, commercialization, and sales of products or services that utilize science and technology in approved sectors as outlined in the [Guide for New Listing Applicants](#). For such companies that do not fulfill the eligibility criteria of Chapter 8 of the Main Board Listing Rules, [Chapter 18C](#) offers an alternative listing route on the Main Board.

HKEX definition of a SPAC

A SPAC (Special Purpose Acquisition Company) is essentially a blank-cheque company established to raise capital through an IPO with the intention of acquiring an existing company or business referred to as a De-SPAC Target, within a specified timeframe. Chapter 18B of the Main Board Listing Rules and Chapter 2.4 of the Guide for New Listing Applicants outlines the regulatory framework for SPAC listings in Hong Kong, including the criteria they must meet for De-SPAC Transactions.

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